

TYPES OF AUCTIONS, THEIR PREVALENCE AND SIGNIFICANCE

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An auction is a process of buying and selling goods or services by offering them up for bid, taking bids, and then selling the item to the highest bidder. The word "auction" is derived from the Latin *augeō* which means "I increase" or "I augment". For most of history, auctions have been a relatively uncommon way to negotiate the exchange of goods and commodities. In practice, both haggling and sale by set-price have been significantly more common. Indeed, prior to the seventeenth century the few auctions that were held were sporadic and infrequent.

The oldest auction house in the world is Stockholm Auction House. It was established in Sweden in 1674. Sotheby's, now the world's second-largest auction house, held its first auction in 1744. Christie's, now the world's largest auction house, was established around 1766. Other early auction houses that are still in operation include Dorotheum (1707), Bonhams (1793), Phillips de Pury & Company (1796), Freeman's (1805) and Lyon & Turnbull (1826). The development of the Internet, however, has led to a significant rise in the use of auctions as auctioneers can solicit bids via the Internet from a wide range of buyers in a much wider range of commodities than was previously practical.

English auction, also known as **an open ascending price auction**. This type of auction is the most common form of auction in use today. Participants bid openly against one another, with each subsequent bid higher than the previous bid. An auctioneer may announce prices, bidders may call out their bids themselves (or have a proxy call out a bid on their behalf), or bids may be submitted electronically with the highest current bid publicly displayed. In some cases a maximum bid might be left with the auctioneer, who may bid on behalf of the bidder according to the bidder's instructions. The auction ends when no participant is willing to bid further, at which point the highest bidder pays their bid. Alternatively, if the seller has set a minimum sale price in advance (the 'reserve' price) and the final bid does not reach that price the item remains unsold. Sometimes the auctioneer sets a minimum amount by which the next bid must exceed the current highest bid. The most significant distinguishing factor of this auction type is that the current highest bid is always available to potential bidders. The English auction is commonly used for selling goods, most prominently antiques and artwork, but also secondhand goods and real estate. At least two bidders are required.

Dutch auction also known as **an open descending price auction**. In the traditional Dutch auction the auctioneer begins with a high asking price which is lowered until some participant is willing to accept the auctioneer's price. The winning participant pays the last announced price. The Dutch auction is named for its best known example, the Dutch tulip auctions. In addition to cut flower sales in the Netherlands, Dutch auctions have also been used for perishable commodities such as fish and tobacco. In practice, however, the Dutch auction is not widely used.

Sealed first-price auction, also known as **a first-price sealed-bid auction (FPSB)**. In this type of auction all bidders simultaneously submit sealed bids so that no bidder knows the bid of any other participant. The highest bidder pays the price they submitted. This type of auction is distinct from the English auction, in that bidders can only submit one bid each. Furthermore, as bidders cannot see the bids of other participants they cannot adjust their own bids accordingly. This kind of bid produces the same outcome as Dutch auction. Sealed first-price auctions are commonly used in tendering, particularly for government contracts and auctions for mining leases.

Vickrey auction, also known as **a sealed-bid second-price auction**. This is identical to the sealed first-price auction except that the winning bidder pays the second highest bid rather than his or her own. Although extremely important in auction theory, in practice Vickrey auctions are rarely used.

Multi-unit auctions sell more than one identical item at the same time, rather than having separate auctions for each. This type can be further classified as a uniform price auction or a discriminatory price auction.

Most auction theory revolves around these four "standard" auction types.

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