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## Auctions

Auctions are one of the oldest market institutions, and were used by the Babylonians. Some of the products that have been sold by auction include the right to televise the Olympic Games, radio spectrum, air travel, condominiums, bull semen, used cars, banks, celebrities' signatures, and cut flowers.\* Because governments tend to use sealed-bid tenders for much of their purchasing, an astounding array of goods and services have been procured by auction, including zero-gravity toilets, flood control, building inspection, clerical work, tax collection, voter registration, and stealth-aircraft design.

Most people think of bidding in the context of antiques auctions, or perhaps government procurement of highways and sales of Treasury bills. More recently, Internet auctions have been a huge success, attracting a great deal of attention. However, bidding is a much more prevalent phenomenon than these explicit auctions would suggest. When a painting contractor competes for a job, the contractor is bidding. When a disk-drive manufacturer quotes a price to a PC assembler, the manufacturer is bidding. When an architect prepares a design proposal for a museum, the architect is bidding. When an overbooked airline offers flight coupons to buy back the overbooked seat, the airline is bidding. Bidding is pervasive in a decentralized economy, and indeed is the foundation of market pricing. For this reason, it is valuable to take a closer look at auctions and bidding.

### BIDDING

There are two major bidding situations: bidding to buy (e.g., an antiques auction) and bidding to sell (a procurement auction). We will focus on bidding to buy, although all of the insights translate readily to the procurement environment.

\*The word "auction" derives from the Latin word *auctio*, meaning "to increase." This refers to oral auctions, where the price is raised by increments until only one bidder is willing to pay the price. The de-