Two Popular Services

• Different Techniques
• Both want to get as much of your consumer surplus as possible.

Priceline and E-Bay

Priceline and Consumer Surplus

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• They offer you a take-it-or-leave-it deal. Your bid will be accepted or rejected.

How much should you bid?

• If you bid $\theta$, you may pay too much.
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• If you bid $\theta$, you may pay too much.
• If you don’t, you might not get the fare.
• Thus the take-it-or-leave-it option.
  – Without that, bid $1$.
  – If that is rejected, bid $2$, etc.
How much should you bid?

- The right bidding strategy depends on your estimate of any given bid being accepted.
  - Without that, bid $1.
  - If that is rejected, bid $2, etc.

E-bay and Vickery Auctions

- E-bay uses a Vickery Auction. The highest bidder gets it at the second bidder’s price.
- You have an incentive to bid $\theta$.

An Example

- Charles Upton offers a Wonder Widget® on E-bay.
  - He sets a reservation price ($50)
  - He requires bids in $5 increments

Bidder 2

- For Bidder 2
  \[ \theta_2 = 200 \]
- He bids $195, and is told the high bid is $95 (his).

You

- $\theta = 300$
- You bid $295, and are told the current high bid is $195 (yours).
Bidder 4

\[ \theta_d = \$250 \]

- Bidder 4 logs on, is told the current high bid is $195.
- He bids $245 and the bid is rejected, for the current high bid is automatically raised to $245 (yours).
- Assuming no other bidders you will get it for that price.

An Example

- Unlike Priceline, you have no incentive to bid less than \( \theta \).

A Warning

- There are other strategic issues in both Priceline and E-bay.
- This is by no means a complete introduction.
- Use these two services at your own risk.

End

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