Priceline and E-Bay

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Two Popular Services

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

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Priceline and E-Bay

Priceline and Consumer Surplus

- Priceline offers goods for sale on the web (an airline trip, for instance). They would ideally like to get people to bid θ.

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Priceline and Consumer Surplus

- Priceline offers goods for sale on the web (an airline trip, for instance). They would ideally like to get people to θ.
- They offer you a take-it-or-leave-it deal. Your bid will be accepted or rejected.

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How much should you bid?

- If you bid θ, you may pay too much.
- If you don't, you might not get the fare.

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Priceline and E-Bay

How much should you bid?

- If you bid θ, 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.

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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 θ.

An Example

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

An Example

- Charles Upton offers a Wonder Widget® on E-bay.
- Bidder 1 logs on.

$$\theta_1 = \$100$$

- He bids $95, and is told the current high bid is $50 (his)

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

$\theta_4 = \$250$

- 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.

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An Example

- Unlike Priceline, you have no incentive to bid less than θ.

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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.

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End

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