Auction

- An auction is a sale in which buyers compete for an asset by placing bids.
- Auctions are conducted both live and online.
- In a closed auction, for example, the sale of a company, bidders are not aware of competing bids.
- In an open auction, such as a livestock auction, bidders are aware of the other bids.
- Examples of auctions include livestock markets where farmers buy and sell animals, car auctions etc.

How Auctions Work

- In an open format, all bidders are aware of the bids submitted.
- In a closed format, bidders are not aware of other bids.
- Auctions can be live, or they can be conducted on an online platform.
- The asset or service in question is sold to the party that places the highest bid in an open auction and usually to the highest bidder in a closed auction

Open Auctions

- In an open auction, parties come together at a physical venue or online exchange to bid on assets.
- An interested party is aware of the competing bid amounts and continues to raise their bid until they are either declared the winner of the auction (i.e., they submitted the last highest bid within the auction time limit) or until they decide to drop out of the bidding.
- Examples of auctions include livestock markets where farmers buy and sell animals, car auctions
- Leading online marketplace eBay is a host of online auctions.

Closed Format Auctions

- Interested parties submit sealed bids to the seller.
- These bid amounts are only known by the seller. The seller may choose to hold just one round of bidding, or the seller may select two or more bidders for an additional auction round.
- In a situation wherein a division of a company or the whole company is up for sale, price is not the only consideration.
- The seller, for example, may want to preserve as many jobs as possible for its employees. If a bidder does not submit the highest price but can offer the best terms for continuity for employees, the seller may select that bidder.

Government Auctions

- Property may become government-owned property through normal purchases or if it is foreclosed on for any reason.
- Investors interested in land and other assets can attend an auction of government-owned property, which may ultimately be sold at attractive prices.
- For example, suppose that a manufacturer declares bankruptcy. If the manufacturer also owes a substantial amount of taxes, the government may seize its capital equipment, including buildings, machinery, equipment, vehicles, and tools, and auction it off to other manufacturers. There is an incentive for other manufacturers to buy these capital goods at auction because they are able to pay less for the used equipment than they would if they purchased brand-new equipment.

Traditional Auctions vs. Dutch Auctions

- A variant of the traditional auction is a dutch auction.
- Google used this process when it issued its initial public offering (IPO) in 2004. In this form of auction, prospective buyers submit bids including the number of shares desired and the amount they are willing to pay for those shares.
- In the case of Google, after the auction, the underwriters sorted through the bids to determine the minimum bid they would accept from buyers. The IPO was priced at $85 per share.
- A Dutch auction also refers to a type of auction whereby the price of an item is lowered until there is a bid. The first bid made is the winning bid and results in a sale, assuming that the price is above the reserve price. This is in contrast to typical options, where the price rises as bidders compete. Dutch auctions are rare in the pricing of IPOs.

Advantages and Disadvantages of Auctions

Pros of Auctions

- Seller controls process
- Find rare items
- Buy at a discount
- Seller can maximize bargaining power

Cons of Auctions

- Competitive process can deter some buyers
- Cost of running an auction is significant
- Competitive bidding process can drive up price

What Happens if No One Bids at an Auction?

- If no one bids at an auction, a vendor bid may be made by the auctioneer. If no bids are placed on a property at an auction, the vendor may decline to put the property back up for auction.
- In this case, the owner may instead negotiate with potential buyers

What Is a Reverse Auction?

- A reverse auction is a type of auction in which sellers bid for the prices at which they are willing to sell their goods and services.
- The buyer puts up a request for a required good or service.
- Sellers then place bids for the amount they are willing to be paid for the good or service, and at the end of the auction the seller with the lowest amount wins.

How Does a Silent Auction Work?

- At silent auctions, items that are for sale are displayed for attendees to place bids on and purchase. There is no auctioneer present at silent auctions; participants place their bids silently and anonymously on a bid sheet using a bidding number.

How Do You Win an eBay Auction?

- On eBay, individuals can create listings for items they want to sell. These listings typically include the item description, photos, and payment and shipping options.
- There are two different ways that you can purchase items on eBay. Some sellers offer a "buy it now" feature so you can buy and pay for the item immediately.
- Other listings are auctions where the highest bidder wins the item. If an item is an auction, the seller chooses a starting price and interested parties can bid against other buyers