An **online auction** is an [auction](https://en.wikipedia.org/wiki/Auction) which is held over the [internet](https://en.wikipedia.org/wiki/Internet). Online auctions come in many different formats, but most popularly they are ascending [English auctions](https://en.wikipedia.org/wiki/English_auction), descending [Dutch auctions](https://en.wikipedia.org/wiki/Dutch_auction), [first-price sealed-bid](https://en.wikipedia.org/wiki/First-price_sealed-bid_auction), [Vickrey auctions](https://en.wikipedia.org/wiki/Vickrey_auction), or sometimes even a combination of multiple auctions, taking elements of one and forging them with another. The scope and reach of these auctions have been propelled by the Internet to a level beyond what the initial purveyors had anticipated.[[1]](https://en.wikipedia.org/wiki/Online_auction#cite_note-Insights_and_analysis_of_online_auctions-1) This is mainly because online auctions break down and remove the physical limitations of traditional auctions such as geography, presence, time, space, and a small target audience.[[1]](https://en.wikipedia.org/wiki/Online_auction#cite_note-Insights_and_analysis_of_online_auctions-1) This influx in reachability has also made it easier to commit unlawful actions within an auction.[[2]](https://en.wikipedia.org/wiki/Online_auction#cite_note-Auction_Fraud-2) In 2002, online auctions were projected to account for 30% of all online e-commerce due to the rapid expansion of the popularity of the form of electronic commerce.[*[3]*](https://en.wikipedia.org/wiki/Online_auction#cite_note-3)

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**History**

Online auctions were taking place even before the release of the first web browser for personal computers, [NCSA Mosaic](https://en.wikipedia.org/wiki/NCSA_Mosaic). Instead of users selling items through the Web they were instead trading through text-based newsgroups and email discussion lists. However, the first Web-based commercial activity regarding online auctions that made significant sales began in May 1995 with the company [Onsale](https://en.wikipedia.org/w/index.php?title=Onsale&action=edit&redlink=1). In September that same year [eBay](https://en.wikipedia.org/wiki/EBay) also began trading.' Both of these companies used ascending bid. The Web offered new advantages such as the use of automated bids via electronic forms, a search engine to be able to quickly find items and the ability to allow users to view items by categories.

Online auctions have greatly increased the variety of goods and services that can be bought and sold using auction mechanisms along with expanding the possibilities for the ways auctions can be conducted and in general created new uses for auctions. In the current web environment there are hundreds, if not thousands, of websites dedicated to online auction practices.

**Types**

There are six different basic types of online auctions:

**English auctions**

In live terms, [English auctions](https://en.wikipedia.org/wiki/English_auction) are where bids are announced by either an auctioneer or by the bidders and winners pay what they bid to receive the object. English auctions are claimed to be the most common form of third-party on-line auction format used and is deemed to appear the most simplistic of all the forms.[[4]](https://en.wikipedia.org/wiki/Online_auction#cite_note-managing_online_auctions-4) The common operational method of the format is that it is an ascending bid auction in which bids are open for all to see. The winner is the highest bidder and the price is the highest bid.[[4]](https://en.wikipedia.org/wiki/Online_auction#cite_note-managing_online_auctions-4) The popularity of the English auction is due to the fact that it uses a mechanism that people find familiar and intuitive and therefore reduces transaction costs. It also transcends the boundaries of a traditional English auction where physical presence is required by the bidders, making it increasingly popular even though there is a susceptibility to various forms of cheating.[[4]](https://en.wikipedia.org/wiki/Online_auction#cite_note-managing_online_auctions-4)

**Dutch auctions**

[Dutch auctions](https://en.wikipedia.org/wiki/Dutch_auction) are the reverse of English auctions whereby the price begins high and is systematically lowered until a buyer accepts the price. Dutch auction services are usually misleading and the term 'Dutch' tends to have become common usage for the use of a [multiunit auction](https://en.wikipedia.org/wiki/Multiunit_auction) in a single unit auction as opposed to how it is originally intended for that of a declining price auction. However, with actual on-line Dutch auctions where the price is descending, it was found that auctions have on average a 30% higher ending price than first-price auctions with speculation pointing to bidder impatience or the effect of endogenous entry on the Dutch auction.

**First-price sealed-bid**

[First-price sealed-bid](https://en.wikipedia.org/wiki/First-price_sealed-bid_auction) auctions are when a single bid is made by all bidding parties and the single highest bidder wins, and pays what they bid. The main difference between this and [English auctions](https://en.wikipedia.org/wiki/Online_auction#English_auctions) is that bids are not openly viewable or announced as opposed to the competitive nature which is generated by public bids. From the [game-theoretic](https://en.wikipedia.org/wiki/Game_theory) point of view, the first-price sealed-bid auction is strategically equivalent to the [Dutch auction](https://en.wikipedia.org/wiki/Dutch_auction); that is, in both auctions the players will be using the same bidding strategies.[[5]](https://en.wikipedia.org/wiki/Online_auction#cite_note-5)

**Vickrey auction**

A [Vickrey auction](https://en.wikipedia.org/wiki/Vickrey_auction), sometimes known as a *second-price sealed-bid auction*, uses very much the same principle as a first-price sealed bid. However, the highest bidder and winner will only pay what the second highest bidder had bid. The Vickrey auction is suggested to prevent the incentive for buyers to bid strategically, due to the fact it requires them to speak the truth by giving their true value of the item. If a bidder makes a very high bid, they may have to pay that price, but if they make a low bid there is a chance that they will lose the item. Therefore, the winner is the person who values the item the highest. It’s a win-win situation for both the seller and the winner.[[6]](https://en.wikipedia.org/wiki/Online_auction#cite_note-6)

**Reverse auction**

[Reverse auctions](https://en.wikipedia.org/wiki/Reverse_auction) are where the roles of buyer and seller are reversed. Multiple sellers compete to obtain the buyer's business and prices typically decrease over time as new offers are made. They do not follow the typical auction format in that the buyer can see all the offers and may choose which they would prefer. Reverse auctions are used predominantly in a business context for [procurement](https://en.wikipedia.org/wiki/Procurement).[[7]](https://en.wikipedia.org/wiki/Online_auction#cite_note-7) Reverse auctions bring buyers and sellers together in a transparent marketplace. The practice has even been implemented for private jet travel on the online auction site [Marmalade Skies](https://en.wikipedia.org/wiki/Marmalade_Skies). IP The term reverse auction is often confused with [unique bid auctions](https://en.wikipedia.org/wiki/Unique_bid_auction), which are more akin to traditional auctions as there is only one seller and multiple buyers. However, they follow a similar price reduction concept except the lowest unique bid always wins, and each bid is confidential.[[8]](https://en.wikipedia.org/wiki/Online_auction#cite_note-8)

**Bidding fee auction**

A [bidding fee auction](https://en.wikipedia.org/wiki/Bidding_fee_auction) (also known as a penny auction) requires customers to pay for bids, which they can increment an auction price one unit of currency at a time. On [English auctions](https://en.wikipedia.org/wiki/English_auction) for example, the price goes up in 1 pence (0.01 GBP) increments. There has been criticism that compares this type of auction to gambling, as users can spend a considerable amount of money without receiving anything in return (other than the spent bids trying to acquire the item).[[9]](https://en.wikipedia.org/wiki/Online_auction#cite_note-codinghorror.com-9)[[10]](https://en.wikipedia.org/wiki/Online_auction#cite_note-10)[[11]](https://en.wikipedia.org/wiki/Online_auction#cite_note-11)[[12]](https://en.wikipedia.org/wiki/Online_auction#cite_note-12)[[13]](https://en.wikipedia.org/wiki/Online_auction#cite_note-gambling-msnbc-13) The auction owner (typically the owner of the website) makes money in two ways, the purchasing of bids and the actual amount made from the final cost of the item. [[14]](https://en.wikipedia.org/wiki/Online_auction#cite_note-OAR_on_How_Penny_Auctions_Make_Money-14)

**Legalities**

**Shill bidding**

Placing fake bids that benefits the seller of the item is known as [shill bidding](https://en.wikipedia.org/wiki/Shill_bidding). This is a method often used in Online auctions but can also happen in standard auctions. This is seen as an unlawful act as it unfairly raises the final price of the auction, so that the winning bidder pays more than they should have. If the shill bid is unsuccessful, the item owner needs to pay the auction fees. In 2011, a member of [eBay](https://en.wikipedia.org/wiki/EBay) became the first individual to be convicted of shill bidding on an auction.[[15]](https://en.wikipedia.org/wiki/Online_auction#cite_note-15) By taking part in the process, an individual is breaking the [European Union fair trading rules](https://en.wikipedia.org/wiki/Unfair_Commercial_Practices_Directive) which carries out a fine of up to £5,000 in the [United Kingdom](https://en.wikipedia.org/wiki/United_Kingdom).[[16]](https://en.wikipedia.org/wiki/Online_auction#cite_note-16)

**Fraud**

The increasing popularity of using online auctions has led to an increase in fraudulent activity.[[2]](https://en.wikipedia.org/wiki/Online_auction#cite_note-Auction_Fraud-2) This is usually performed on an auction website by creating a very appetising auction, such as a low starting amount. Once a buyer wins an auction and pays for it, the fradulent seller will either not pursue with the delivery,[[17]](https://en.wikipedia.org/wiki/Online_auction#cite_note-17) or send a less valuable version of the purchased item (replicated, used, refurbished, etc.). Protection to prevent such acts has become readily available, most notably [Paypal's buyer protection policy](https://en.wikipedia.org/wiki/Paypal#Safety_and_protection_policies). As Paypal handles the transaction, they have the ability to hold funds until a conclusion is drawn whereby the victim can be compensated.[[18]](https://en.wikipedia.org/wiki/Online_auction#cite_note-18)

**Sale of stolen goods**

Online auction websites are used by thieves or [fences](https://en.wikipedia.org/wiki/Fence_%28criminal%29) to sell stolen goods to unsuspecting buyers.[[19]](https://en.wikipedia.org/wiki/Online_auction#cite_note-19) According to police statistics there were over 8000 crimes involving stolen goods, fraud or deception reported on eBay in 2009.[[20]](https://en.wikipedia.org/wiki/Online_auction#cite_note-20) It has become common practice for organised criminals to steal in-demand items, often in bulk. These items are then sold online as it is a safer option due to the anonymity and worldwide market it provides.[[21]](https://en.wikipedia.org/wiki/Online_auction#cite_note-21) Auction fraud makes up a large percentage of complaints received by the [FBI](https://en.wikipedia.org/wiki/FBI)’s Internet Crime Complaint Center (IC3). This was around 45% in 2006 and 63% in 2005.[[22]](https://en.wikipedia.org/wiki/Online_auction#cite_note-22)

**Bidding techniques**

**Auction sniping**

[Auction sniping](https://en.wikipedia.org/wiki/Auction_sniping) is a controversial bidding technique used in timed online auctions.[[23]](https://en.wikipedia.org/wiki/Online_auction#cite_note-23) It is the practice of placing a bid in the final stages of an auction with the aim of removing other bidder's ability to place another bid before the auction ends. These bids can either be placed by the bidder manually or automatically with the use of a tool.[[24]](https://en.wikipedia.org/wiki/Online_auction#cite_note-24) There are tools available that have been developed for this purpose. However, the use of these tools is the subject of much controversy.[[25]](https://en.wikipedia.org/wiki/Online_auction#cite_note-25)

There are two different approaches employed by sniping tools.

* **Online:** These are hosted on a remote server and are a service run by a third party.
* **Local:** This type is a script which can be downloaded onto the users computer which is then activated and run locally.