

# Written Exam for the M.Sc. in Economics Summer 2010

## **Auctions**

Master's Course

10 August 2010

(3-hour closed book exam)

Please note that the language used in your exam paper must correspond to the language of the title for which you registered during exam registration. I.e. if you registered for the English title of the course, you must write your exam paper in English. Likewise, if you registered for the Danish title of the course or if you registered for the English title which was followed by “eksamen på dansk” in brackets, you must write your exam paper in Danish.

If you are in doubt about which title you registered for, please see the print of your exam registration from the students' self-service system.

**1.** A privately owned company is set for sale through an auction where the stock is divided into 10 lots of equal size. Due to regulation of the market, buyers are allowed to purchase at most two of the 10 lots, and resale is not permitted for the next 5 years.

It has been agreed that the auction should be closed, and that the 10 lots is given to highest bids. There is some disagreement as to whether the winners should pay their own bids, or there should be a single price to be paid by all winners. The latter rule is considered as more fair to the buyers, but on the other hand the sellers are afraid that it will result in smaller revenue from the sale. Give a suggestion for what should be chosen.

After some debate, it is decided that winners should pay their own bid. After the auction, it turns out that the buyers who have obtained two lots pay the same price for each. Give an explanation of this phenomenon.

**2.** A school has decided to introduce a hot meal at noon for its children, delivered from a catering firm, but there has been considerable disagreement among the parents as to the weekly menu. Give a suggestion for how the school could achieve a choice, which is efficient in the sense that there is no other menu which would give a greater average parent satisfaction.

The school is not allowed to collect extra money from the parents. Does this affect the possibilities of the school to obtain efficient lunch menus?

**3.** A furniture trader buys up old furniture for export using a number of business contacts, one in each country of destination. These contacts represent the final buyers in their respective countries, and the furniture taste differs considerably among countries.

When the trader gets hold of a particularly interesting piece of furniture, he contemplates putting it in on auction among his business contacts. Give a suggestion, based on the relevant parts of auction theory, for the choice o