

AUCTION.

Definition:

Auction is a sales event wherein potential buyers place competitive bids on assets or services either in an open or closed format. This is common because buyers and sellers believe they will get a good deal buying or selling assets.

During auction, there are two types of auction format i.e. closed and open format. In an open format all bidders are aware of the bids submitted whereas in a closed format all 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 bid in a closed auction.

There are lots of examples under open auction format and that include livestock markets where farmers come to buy and sell animals, car auctions and leading online market place, eBay being the host of online auctions. It is important to note that price is not always the deciding factor when assets are sold by auction; a company that is for sale might choose a buyer who will provide the best terms for its employees. In most business transactions including the sale of company assets, auctions are conducted in a closed format whereby interested parties submit sealed bids to the seller. These bids amount are only known by the seller. In case there is a split-up in a company, price is not the only consideration. Both the price and the company that offer the best terms is taken into consideration.

In certain cases property may become government-owned property through normal purchases. This is known as government auctions. For example if a manufacturer declares bankruptcy or if the manufacturer owes a large amount of taxes, the government now comes at hand and seizes its capital and equipment including machinery, tools etc. Then other manufacturers get a chance to buy these capital goods at an auction because they are able to pay less for the used equipment than they would buy new ones.

VALUE OF AUCTIONS IN THE ECONOMY BASED IN AGRICULTURE, EBAY AND DISTRESSED ASSET SALES.

Auctions can be an important tool for selling goods and gathering information. Auctions are used in multiple venues including agriculture, eBay and distressed asset sale since they impact the economy.

a) AGRICULTURE

In agriculture findings have found that livestock auction is growing rapidly especially in rural areas. This is according to OVERLAND PARK, Kan-A 2023 economic impact study, which updated a study from 2017 found that livestock auction markets continue to be important for the growth of rural communities.

Another study at an average, the fixed-facility livestock auction market revealed that the market provides an average of \$2 million in total-added value in dollars to its local community. This has shown an improvement from Livestock Market Association (LMA) which was identified in 2017. This has risen from \$1 million.

The livestock auction market located in Missouri, a rural town center with a population of less than five thousand people, they sell all classes of cattle in a weekly sale. This auction market was selected as an example of LMA member-livestock auctions based on the type of operation, gross sales of livestock, locality and population. LMA represents 85% of the livestock auction markets in the United States.

Cattle is the largest species sold through livestock auction market per head annually. LMA provides 17 jobs generating about \$900,000 in labour income to the community's economy. In addition to that, the market also contributes about \$500,000 in local taxes and \$100,000 in federal taxes. This impacted positively to the economy.

The famous Kristen Parman, LMA vice president of Membership Service once said 'Livestock auction markets today remain critical in helping our rural communities continue to thrive.'

b) DISTRESSED SALE

A distressed sale occurs when stock, property, stock or other asset must be sold quickly. Distressed sales normally result in financial loss for the seller who, for reasons of economic duress, must accept a lower price. The proceeds from the assets are mostly used to pay debts or other emergencies.

The distressed sales normally work when for example mortgage borrowers who can no longer meet the payment for their mortgaged property may opt to sell their property to pay off the mortgage. The most common situations where distress sales occur include divorce, relocations and foreclosures.

A divorce could force a home to be sold in order to liquidate assets that must be divided between the parties. A lender must agree to the short sale because the transaction do away with the collateral that secured the mortgage.

A distressed sale can lead to a tremendous net sale. This happens when the tradeoff a seller gets from accepting an offer that is below the market value is the immediate cash the sale provides. If a distressed sale is conducted for a piece of property, the seller opt for a lower price and the offer is being accepted by either advertising the item or involving a pawnbroker.

When the pawnbroker is involved, they receive offers below the value of the item. The pawnbroker then bids low since they hope to sell the item at a higher price and attain a profit.

If an asset is sold through a distressed sale means the valuation of the asset is considered artificial because it was not sold under true competitive market conditions. A good example is real estate, the sales price cannot be used as a comparator to establish the asset's true value. This often leads to financial loss.

Buying a distressed property means that you stand a good chance of buying it at a price that is below market value. However, there are setbacks. If the seller was in a haste to sell, it is unlikely that they will have performed any repairs in that house so the new person may have to chip in to bring the property up to the desired state.

c) EBAY

The popularity of online auctions is relatively a recent phenomenon, eBay, the leading online auctioneer, is one of the most popular websites and has become common for trading online.

Vickrey 1961, Milgrom and Weber 1982, McAfee and McMillan 1997 have extensively studied online auctions to understand the properties as a dynamic pricing market structure. This involves both analytical method and empirical testing. The different auction mechanisms studied include; English auction, Dutch auction, First-price sealed-bid auction and the Vickrey auction.

Economists worry about markets with asymmetric information properties. The likes of Akerlof 1970 and Shapiro 1983 is quite pessimistic about whether markets are able to function with adverse selection. Online auction sites such as eBay solve this problem through a feedback system via ratings to ensure reliability and timeliness in payment and delivery. This is possible through eBay ID of the seller or buyer as the bridge.

Lucking-Reiley (2000) have found that seller feedback ratings have a measurable effect on her auction prices, minimum bids and reserve prices have positive effects on the final auction prices and on average longer lasting auctions results in significantly higher prices.

There are factors that determine the final auction in eBay such as auction length, number of bids, disclosing parking points and private auctions exhibit significant price effects. Auctions ending during the weekend yielded higher prices than auctions ending on weekdays. This means that the weekend effect is a personal characteristic hence people are willing to pay more for the same item when they have more time to consider the purchase.

Auctions that last longer attract more bidders and this higher prices.

FOR EXAMPLE:

The data collected is a merchandise from eBay, canvas shoes, the only specification is the shoe size number 38. The market price already known to the buyer online while the buyer tells his or her location and in return the seller dispatch the time to dispatch the merchandise.

METHODOLOGY:

a) A user account is added to the eBay website. 38 on-going auction of canvas shoes are added to the watch-list over a month in order to track the bidding activities of these items.

b) The market price of these items is being searched online for identical item on eBay under the buy-it-now option.

c) All data are collected and recorded on paper.

ASSUMPTIONS:

Several assumptions are made in order to test the theoretical prediction;

- a) An eBay auction resembles a theoretical second-price sealed-bid auction closely.
- b) The only utility for the winner of the auction comes from the difference between his or her valuation of the object and payment for the object.
- c) Bidders have perfect information of market price of the item and take this information into consideration when making bids.
- d) Bidders do not know other bidders' valuations of the object hence bidders do not change their valuations based on the other bidders' bids.

INFORMATION ANALYSIS:

The shipping fee is taken into consideration and the total payment of the winner of the bids is calculated.

Final bidding amount + shipping fee = total amount paid by other winner of the bid.

It is important to note that the total amount paid by the winning bidder should be close to the market price. It should never exceed the market price.

Total amount paid by the winning bidder - shipping fee = market price/value.

Different items have different price ranges thus different variances in bidding. To make the data more consistent, the differences between the total payment and market price is taken as a fraction of the market price.

If the criteria of randomness is set at 4% for example means that the over-bidding can be accounted for by chance then the proportion of over-bidding should be less or equal to 4%.

If the p-value is less than 1, this means that it is impossible that the over-bidding is by chance or randomness. Thus we reject the null hypothesis. But if the p-value is 1 then we know that the over-bidding is by chance and hence we accept the null hypothesis.

In conclusion, eBay auction system cannot imitate a second-price theoretical auction system due to a number of factors mentioned earlier.

Although ebay auction is considered as one of the fastest online auctions since the minimum a person can wait to receive an item is currently 4 days and it being the most reliable website,,it also have some disadvantages of its own such as;

a)The commissions and fees on selling on ebay are very high than other online platforms hence reducing profits for sellers. This means that the sellers need to reactivate and the items thethey are selling before they expire without receiving any bids.

ADVANTAGES AND DISADVANTAGES OF AUCTION.

a) ADVANTAGES.

- A speedy process.
- Fun and being excited
- Honesty of the transaction
- Certainty of knowing what you are getting
- You set your own price and establish your own value.

b) DISADVANTAGES

- Marketing costs tend to be higher
- The market value of your property is decided on the spot
- Auctions concentrate the buying process into a short period of time
- There is no guarantee your property will be sold successfully at an auction.