

to snipe or not to snipe

Do People Bid Irrationally On eBay?

Analysis of online auction data has yielded a wealth of information and a few puzzles. Most puzzling is the wide use of sniping. In 2000, a study of eBay auctions found that 37 percent of auctions had a bid in the last minute and 12 percent in the last 10 seconds. These data underestimate the phenomena of late bidding, because bids received after the auction closes are not counted. In April 2002, Ozmioz Games analyzed a recent set of eBay auctions and found that these numbers have not changed.

Sniping is even more interesting, since eBay offers an automated bidding agent that is intended to eliminate the incentive to snipe. You only need to tell your bidding agent the most you are willing to pay for an item. If someone bids more, your agent will automatically increase your bid by a minimum increment.

At first many economists and academics believed sniping to be an irrational strategy. Caught up in the heat of the moment, individuals drove the price of an item up beyond reason in the last minutes. However, Al Roth and Axel Ockenfels, two Harvard researchers, believe bidders are acting in collusion to keep prices down. Their hypothesis is that late bidding is a way for participants to avoid bidding wars, allowing them to get the item at a lower price.

For example, you want a new computer. It is worth \$1000 to you, and you believe there is one other possible bidder who is willing to pay \$1000. If each of you uses a bidding agent, then the price quickly rises to \$1000. Even if the tie is resolved in your favor, this is no bargain.

But what if you bid \$300 early on. In the last seconds your competitor bids \$500. You then bid \$600, but run the risk that your bid might be dropped. Even if you only get the computer for \$600 half the time, it is still better than paying \$1000.

This example shows the essential intuition of the Roth-Ockenfels analysis: bidding high at the last minute and letting chance determine the outcome is better for both players than bidding high early and starting a bidding war.

Is this explanation correct? Amazon's going, going, gone rule provides the answer. If you bid in the last minutes the Amazon auction is extended. An auction terminates only when 10 minutes have elapsed without a bid.

If the Roth-Ockenfels theory is correct, then Amazon auction should see much less last minute bidding. And that is what happens. While eBay auctions show last minute bidding 37 percent of the time, on Amazon less than 1 percent of auctions show this sort of behavior.

Thus, contrary to what some economists and academics first believed, late bidding is very rational. In fact these bidders, through cunning, or through trial and error, have adopted unwritten rules of conduct to keep prices down.

This is all well and good for the bidders, but what if you are a seller? Which online auction will net you the most money? There have been some preliminary studies, but it is hard to compare auctions unconditionally. For example it might be unwise to sell on Yahoo without a reservation price, but a reservation price is not needed on eBay.

So what is your opinion? If you have any insights into which online auction is best for the seller, please email editor@ozmioz.com. Select opinions will appear next issue. (by Ozmioz Mak)