

Auctioning off Public Goods

Example of a Solution

1. Task

- a. When fishermen are interested in buying a fish stock, they naturally do not know how many fish there actually are (e.g. herring in the Baltic Sea). In fact, there is a certain amount of fish at a certain time, but nobody knows it. Only when you go fishing will you find out how high the fish stocks tend to be.
- b. In the case of private objects, the objects usually have a very personal value for the bidders (e.g. former house of the grandparents, dream house, hobby, image gain, collector's item), which can differ greatly from the actual market value. In the case of public properties, it is usually companies for which the actual value of the property is decisive, because they want to make a profit through the purchase and economic exploitation of the property. Wilson and Milgrom therefore distinguish between a "private value" and a "common value".
- c. Companies, too, are afraid of paying too much and thus suffering a disadvantage compared to their competitors and reduce their profits.
- d. In the case of upward auctions, it is easier to assess what the general opinion of the object is among the other bidders. In downward auctions, at a certain price for a hundred boxes of tulips, many traders may still be bidding, but at one euro less they may suddenly disappear.
- e. In multi-round auctions, the bidders can see after each round how much their competitors have bid. With this knowledge they can also correct their bids in the next round and they can be sure that the auction is only over when none of the bidders places a new bid.
- f. After the UMTS blunder, the telecommunications companies are now much more cautious and realistic with their market estimates. This can be seen not only in the lower bids, but also in the immensely high number of auction rounds.

2. Individual answers of the working groups

In addition to a convincing presentation, a creative and coherent solution to the problem for the client is important for the assessment of the presentations.