



Bidding Wisely

The basic auction format familiar to most people is just one of the many forms that an auction might take. For example, in the "second-price auction," the highest bidder is awarded the object but charged only the amount of the second-highest bid. (This is not as bad for the seller as it might sound; bidding can be more aggressive in this format.) This and other auction formats are studied using mathematical modeling, game theory, combinatorics, integer programming and optimization. One fundamental conclusion arrived at by researchers is that inexperienced bidders almost always overbid.

The Internet is one factor that has led to an increase in the number of items sold at auction. Reverse auctions—in which a company needing a product allows providers to bid on the price, with the lowest bidder winning—are also gaining in popularity. Some newly designed auctions allow bids on groups of items or involve more than one round of bidding. The increased frequency of auctions is exemplified in the airline industry, where the gate a flight leaves from and the amount of the voucher you receive for surrendering your seat may both be determined by auction.

For more information: *The Economic Theory of Auctions*, Paul Klemperer, ed.



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