

Auctions: A Classroom Game for Chapter 13

The instructor will bring to class a glass jar of pennies to be auctioned off. There are between 0 and 100 pennies in the jar, the number being drawn from a uniform distribution. Twenty percent of the students in the class must close their eyes while the jar is being displayed. The instructor will pass the jar around to the other students in the class to let them try to figure out how many pennies are inside. He will then auction off the jar five times, using five different sets of rules. (The instructor will decide for himself whether to play for real money or not.)

The first auction will be a first-price auction.

Each student submits a bid, and also record his estimate of the number of pennies.

The second auction will be a second-price auction.

Each student submits a bid, and also record his estimate of the number of pennies.

The third auction will be an all-pay auction.

Each student submits a bid, and also record his estimate of the number of pennies.

The fourth auction will be a descending auction.

After the auction, each student submits his estimate of the number of pennies.

The fifth auction will be an ascending auction.

After the auction, each student submits his estimate of the number of pennies.

At this point, the instructor will announce the number of pennies in the jar, and the results of each auction.

Instructor's Notes

This is a pure common-value auction.

I have said the number of pennies is random because otherwise the students might suspect the instructor would choose 0 on purpose. Here is a list of random numbers from STATA: 13, 64,55,60,68,10,61,6,55,87.

The students who do not get to see the jar have worse information, and their best strategy is to bid zero. In my classes, though, they often do bid, and win the auction, to their regret. I say that they are like “technical analysts” in the stock market, who ignore market fundamentals and just rely on how other people are buying and selling stocks.

On the next page is an overhead slide to use to record the results. Write down all or a sample of the bids and estimates for each auction, and

The estimates should really be identical for Auctions 1, 2, 3, and 4, since no information is disclosed during auctions 1, 2, and 3.

Scoresheet for “Auctions: A Classroom Game for Chapter 13”

Name:

