

## Vickery Auction ( Vickery Auction)

Winner with the second's bid

As already known, auctions are a negotiating tool. The large range of different types of auctions is due to the fact that negotiations in business world are complicated and therefore, the design requirements of an auction are high..

Each type is different from other types, depending of how it declares the winner of the auction or how it shares the quantity on auction.

**An alternative proposal was made by the American economist William Vickery, winner of Nobel Prize in Economics (in 1996 jointly with the British James A. Mirrlees).**

Part of his work, was connected to the effects of various auction types on financial results. Vickery invented the "second price" auction type, which was later named as "Vickery auction" to honor him (although there are opposite opinions claiming the type was used by stamp auctions organizers since 1893 and it was not invented by Vickery).

**This auction type applies on purchases and sales and operates in connection with other types of auctions that declare a winner.**

**In particular, in a Vickery auction, the lowest (or highest) price declares the winner, who sells (or buys) at the second best price.**

So, if one company performs a tender, the supplier who will offer the lowest price wins the auction, but sells at the next higher price, i.e. at the price the second bidder offered.

In order to understand how this works, lets see the facts from the participant's view. The participant knows his own supply cost (or he shall know).

So, he may safely submit an offer equal to this cost, knowing that he will be paid with the second higher price, this one of the second bidder.

On the contrary, at a procedure of submission of closed quotes in envelopes, the participant shall define the cost and following, the profit margin, guessing what the rest are about to offer.

So, if there are high market prices, the buyers end up paying too much profits to suppliers and the bidder is not necessarily the one with the lowest cost.

In a Vickery auction, the participants have one more motive to submit their true better price, as they know that their profit will be increased so as their difference with the second one is.

The selection of the right auction type may effect remarkably the result, so the organizer shall analyze and count in all factors, in order to create an environment as competitive as possible and less uncertain for the participants.

