

# oxbridge applications

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## QUESTION:

Your favourite performer is play a concert but it is sold out. On the night of the concert, you go anyway to try and find a ticket tout. You find one who has her last ticket to sell but lots of people want to buy it. She says she will sell it to the highest bidder, for the price of the second highest bid (and all buyers must bid secretly in a sealed envelope). You think the ticket is worth £60. Should you bid less than £60, £60 or more than £60?

## ANSWER:

This is an example of a Vickery Auction which is something most Economics courses cover.

In an auction where you have to pay the price that you bid, you have an incentive to lie about how much the product is worth to you as you're always trying to second guess everyone else in order to only have to pay a little bit more than the next person, rather than bidding the value that you really perceive the product to be worth.

In a Vickery Auction, there's no issue as there is no benefit in bidding anything other than the true value to you. If you bid less than £60 for the ticket, you may lose out even though you would have been willing to pay more. If you bid higher than £60, you may get the ticket but will have had to pay more than the value to you. If you bid £60 and win, you will end up paying exactly what it takes to win the ticket and never pay more than the true value.