



The Relationship of Pre-Sale Estimates to Winning Bids In Wine Auctions

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Abstract

Commercial auctions often include pre-sale estimates in their catalogues. While the reasons for and methods behind providing such estimates are not well known, economic theory suggests that these estimates should provide honest guidance to bidders: given enough lots of a given item, the winning bid should equal the pre-sale estimate. The limited available empirical research suggests that pre-sale estimates may not be reliable predictors of successful bids. This research examines the relevance of pre-sale estimates to winning bids in a number of Chicago wine auctions selling a prominent red Bordeaux wine. An interesting feature of this type of auction that has been missing for other published research is that the items offered are widely traded so that informed bidders know enough to evaluate the reliability of the pre-sale estimates. The evidence suggests that the relationship of winning bids to pre-sale estimates differs significantly between the two auction houses represented here, that neither provides unbiased pre-sale estimates, and that the pre-sale estimates reflect significant errors in valuing some of the characteristics of the lots sold.