

The revenue-effect of the buyer's option in multi-unit ascending auctions: the case of wine auctions at Drouot*

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September 2002

Abstract

This paper presents a model of bidding behavior in multi-unit ascending (English) auctions with a buyer's option. The buyer's option gives the winner of an auction the right to purchase any number of units at the winning price. We derive the optimal strategies for the bidders. The model is estimated using a unique data set on wine auctions held at the Paris-based auction house Drouot. A counterfactual comparison shows that the seller's revenue in a system where items are auctioned sequentially (i.e. one after the other) is the same as in a system based on the buyer's option.

Keywords: Buyer's option, multi-unit ascending auctions, wine auctions.

JEL Classification: D44.

*We are very grateful to Jeanne Fraysse and Christophe Gegout for their help. Also thanks to Dan Akerberg and other participants at the 5th INRA-IDEI Conference on "Industrial Organization and the Food Processing Industry" for their comments and suggestions.

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