

Auctions with a Buy Price*

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Abstract

Internet auctions on eBay and Yahoo allow sellers to list their auctions with a *Buy-Now* option. In such auctions the seller sets a *buy price* at which a bidder may purchase the item immediately and end the auction. In the eBay version of a buy-now auction, the buy-now option disappears as soon as a bid is placed, while in the Yahoo version of the auction the buy-now option remains in effect throughout the auction. When bidders are risk neutral there is no advantage to introducing a buy price in either an eBay or a Yahoo auction. When bidders are risk averse, introducing a buy price raises seller revenue in both the eBay and the Yahoo auction for a wide range of buy prices. We show that while the Yahoo format raises more revenue than the eBay format (when the reserve and the buy price are the same in both auctions), the auctions are utility equivalent from the bidders' perspective.

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