



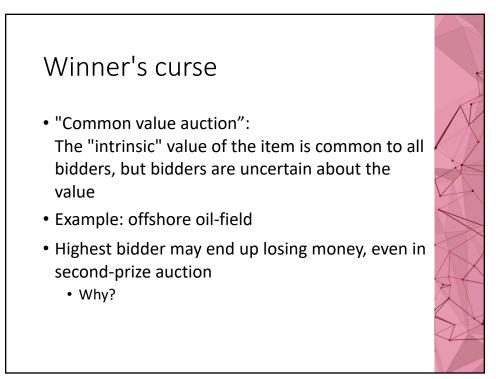
Second-price auction

Bidders' dominant strategy is to bid truthfully

First-price auction

- Will bidders be truthful?
- No
 - Bid $v_i \rightarrow$ Payoff is 0, win or lose
 - Bid < $v_i \rightarrow$ Could potentially get positive payoff





Which auction is more profitable for a seller?

- First-price
 - Seller gets the highest bid, but the buyers lied (i.e., they underbid)
- Second-price
 - Seller gets the 2nd highest bid, but that is true value
- Which one is better? Unknown.

