

Chapter 11

Auctions

True-False Questions

1. In some auctions, sellers offer product; in others, buyers post product needs.

Answer: T

Reference: Fundamentals of Dynamic Pricing and Auctions

2. The primary advantages of e-auctions compared with traditional auctions are lower administrative costs and the potential for more participants.

Answer: T

Reference: Fundamentals of Dynamic Pricing and Auctions

3. The defining characteristic of an auction is dynamic pricing.

Answer: T

Reference: Fundamentals of Dynamic Pricing and Auctions

4. In a situation where there is only one buyer and one seller, prices are usually set by negotiation and bargaining

Answer: T

Reference: One Buyer, One Seller

5. In an English auction, bidding continues until no more bids are rendered, or until the time limit expires.

Answer: T

Reference: Insights and Additions 11.1

6. In a Dutch auction, each winner pays the same price.

Answer: T

Reference: Insights and Additions 11.1

7. The selling price in a forward auction is the lowest price at which the seller would be willing to sell the product.

Answer: F

Reference: Insights and Additions 11.1

8. In a quickwin auction, the first bid received wins.

Answer: F

Reference: Insights and Additions 11.1

9. In a Vickrey auction, the item goes to the highest bidder at the second highest bid price to alleviate the buyers' fears of significantly exceeding the true market value of the item.

Answer: T

Reference: One Seller, Many Potential Buyers

10. In sealed bid auctions, each bidder may bid only once.
Answer: T **Reference:** One Seller, Many Potential Buyers
11. In reverse auctions prices are lowered sequentially and the lowest bid wins.
Answer: T **Reference:** One Buyer, Many Potential Sellers
12. Most C2C forward auctions are Dutch auctions.
Answer: F **Reference:** C2C Reverse Auctions
13. Harold has always dreamed of owning a 1968 Corvette. To see if he can afford one, he lists the color and other distinguishing characteristics he is seeking on a Web site and asks for bids from car owners who are interested in selling. This is an example of a C2C reverse auction.
Answer: T **Reference:** C2C Reverse Auctions
14. The stock market is an example of a single seller, many potential buyers auction.
Answer: F **Reference:** Many Sellers, Many Buyers
15. Studies show that auction exchange models are reaching liquidity more rapidly than models using only catalog-order-based trading environments.
Answer: T **Reference:** Strategic Uses of Auctions and Pricing Mechanisms
16. E-auctions place much more power in the hands of the consumer than e-tailing.
Answer: T **Reference:** Strategic Uses of Auctions and Pricing Mechanisms
17. E-auctions remove the risks associated with demand forecasts and mis-pricing for the seller.
Answer: T **Reference:** Benefits to Sellers
18. Pricing data received from e-auctions has proven useless in setting prices in fixed-price markets.
Answer: F **Reference:** Benefits to Sellers
19. Compared with traditional auctions and liquidations, e-auctions offer lower transaction costs.
Answer: T **Reference:** Benefits to Sellers
20. The auction bidding mechanism often results in lower prices for buyers.
Answer: T **Reference:** Benefits of E-Auctions to Buyers

21. E-auction sites tend to have higher repeat purchase rates than other B2C sites.

Answer: T

Reference: Benefits to E-Auctioneers

22. Auction sites are less sticky than other kinds of B2C sites.

Answer: F

Reference: Benefits to E-Auctioneers

23. Auction aggregators aggregate merchandise that sellers want to liquidate, then offer them at forward auctions via the Internet.

Answer: F

Reference: Phase 1: Searching and Comparing

24. The large number of auctions going on at all times at many sites around the world has created a market for new software agents that can locate auctions for particular items.

Answer: T

Reference: Phase 1: Searching and Comparing

25. The reserve price is the price a seller hopes to get for an item at auction.

Answer: F

Reference: Phase 2: Getting Started at an Auction

26. Entering a bid at the last minute before an auction closes in order to assure success is called sniping.

Answer: T

Reference: Phase 3: The Actual Bidding

27. Pay Pal is an example of an online escrow service.

Answer: F

Reference: Phase 4: Postauction Follow-up

28. In a vertical auction, all the buyers and sellers are in the same industry.

Answer: T

Reference: Additional Terms and Rules

29. In most auctions, the bidder can retract his/her bid if he/she changes his/her mind.

Answer: F

Reference: Additional Terms and Rules

30. In a double auction, the difference between the price received and the fair market value of the product sold represents the seller's profit.

Answer: F

Reference: Double Auctions

31. In a double auction, the difference between the price paid for an item and what the seller paid for the item is the buyer's surplus.

Answer: F

Reference: Double Auctions

32. A market maker is required in double auctions where the quantity offered differs from the quantity desired by buyers.

Answer: T

Reference: Double Auctions

33. Auctioneers make more money on double auctions than on single auctions.

Answer: F

Reference: Prices in Double Auctions

34. On an auction site, an airline ticket, hotel room, and rental car are offered for bid as a single item. This is an example of bundle trading.

Answer: T

Reference: Bundle Trading

35. Compared with competitive markets, prices in auctions tend to be lower.

Answer: F

Reference: Prices in Auctions: Higher or Lower?

36. When only one seller exists in an auction with many buyers, pricing will approach monopoly levels.

Answer: T

Reference: Prices in Auctions: Higher or Lower?

37. Of all the different business models currently in use on the Internet, fraud is most prevalent in auctions.

Answer: T

Reference: Auction Fraud and Its Prevention

38. A seller arranges to have fake bids placed on its product in order to drive the price up. This practice is called shilling.

Answer: T

Reference: Type of E-Auction Fraud

39. Bartering is the selling of services over the Internet.

Answer: F

Reference: Bartering

40. One impact of the growth of auctions is pressure on traditional market intermediaries.

Answer: T

Reference: Strategic Alliances

Multiple Choice Questions

41. In dynamic pricing,:

- a. prices are set by the seller based on its cost structure.
- b. prices are regulated by government entities.
- c. prices are not fixed, and so change rapidly.
- d. prices are static.

Answer: c

Reference: Fundamentals of Dynamic Pricing and Auctions

42. _____ work best with many buyers and many sellers.

- a. E-bartering
- b. Dynamic exchanges
- c. Forward auctions
- d. Reverse auctions

Answer: b

Reference: Fundamentals of Dynamic Pricing and Auctions

43. The model that is most appropriate for one seller and many buyers is:

- a. e-bartering.
- b. the dynamic exchange.
- c. the forward auction.
- d. the reverse auction.

Answer: c

Reference: Fundamentals of Dynamic Pricing and Auctions

44. When there is one buyer and many sellers, the most appropriate auction model is the:

- a. e-Bartering.
- b. the dynamic exchange.
- c. the forward auction.
- d. the reverse auction.

Answer: d

Reference: Fundamentals of Dynamic Pricing and Auctions

45. Examples of dynamic pricing are:

- a. prices found in a catalog.
- b. prices found in a grocery store.
- c. “this week only” sale prices found in a banner ad.
- d. prices set by negotiation and bargaining.

Answer: d

Reference: Fundamentals of Dynamic Pricing and Auctions

46. The auction model in which items are sold to the highest bidder after the auction period ends is called:
- a. a Yankee auction.
 - b. an English auction.
 - c. a Dutch auction.
 - d. a free-fall auction.

Answer: b

Reference: Insights and Additions 11.1

47. The model in which a product appears on the Internet, but pricing is determined through off-line negotiation is called:
- a. a Yankee auction.
 - b. an English auction.
 - c. a Dutch auction.
 - d. a classified listing.

Answer: d

Reference: Insights and Additions 11.1

48. In a Dutch auction for fifteen new laptop computers, Party A and Party B submit the same bid, which are the high bids in the auction. Party A submitted her bid 25 minutes before Party B. In this case:
- a. A will get a computer but B will not.
 - b. B will have to up his bid to get a computer.
 - c. B will get the computer because his bid is the second high bid.
 - d. both A and B will get computers.

Answer: d

Reference: Insights and Additions 11.1

49. The auction model in which the buyer places an item for bid on a request for quote system is called:
- a. a Yankee auction.
 - b. an English auction.
 - c. a reverse auction.
 - d. a Dutch auction.

Answer: c

Reference: One Buyer, Many Potential Sellers

50. The auction in which each bidder is allowed to bid only once with the item going to the highest bidder is called:
- a. a first-price sealed-bid auction.
 - b. an English auction.
 - c. a tendering system.
 - d. a free-fall auction.

Answer: a

Reference: One Seller, Many Potential Buyers

51. In a forward auction for baseball card collectors, every bid can be seen by every bidder. This is an example of:
- a. price reserving.
 - b. price sensitivity.
 - c. price transparency.
 - d. price fixing.

Answer: c

Reference: Exhibit 11.2

52. The auction model in which buyers submit a price they are willing to pay for a product or service and suppliers who are interested in providing the item or service at that price then submit product information is called:
- a. the Yankee auction model.
 - b. a name-your-own-price model.
 - c. the tendering system model.
 - d. the free-fall auction model.

Answer: b

Reference: The “Name Your Own Price” C2B Model

53. All of the following are potential benefits from auctions to sellers **EXCEPT**:
- a. auctions can broaden the customer base and reduce cycle time.
 - b. sellers receive valuable price sensitivity information.
 - c. sellers are always anonymous.
 - d. sellers can liquidate large quantities of obsolete items very quickly.

Answer: c

Reference: Benefits to Sellers

54. All of the following are potential benefits for auction buyers **EXCEPT**:
- a. buyers are given the opportunity to purchase unique items and collectibles.
 - b. buyers are given the opportunity to bargain through the prices they bid.
 - c. buyers can remain anonymous.
 - d. auctions guarantee buyers that they have received the lowest possible price on any item upon which their bid is successful.

Answer: d

Reference: Benefits of E-Auctions to Buyers

55. Rachel is a collector of antique dolls. She places a bid on a doll, but before leaving the site, she checks out four other auctions. This is an example of the site's:
- a. usefulness.
 - b. stickiness.
 - c. ubiquity.
 - d. personalization.

Answer: b

Reference: Benefits to E-Auctioneers

56. Research has shown that e-commerce sites that use an auction model tend to:
- a. reach critical mass more quickly than other models.
 - b. fail more often than other models.
 - c. reach critical mass more slowly than other models.
 - d. become illiquid.

Answer: a

Reference: Strategic Uses of Auctions and Pricing Mechanisms

57. A traditional auction for a first edition novel lasts less than an hour. An online auction is left open for bids for three days. The online auction in this example:
- a. will produce a higher price than the traditional auction price.
 - b. has longer cycle time than the traditional auction.
 - c. will cost the seller more in fees than the traditional auction.
 - d. will have fewer bidders than the traditional auction.

Answer: c

Reference: Limitations of E-Auctions

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 - b. has longer cycle time than the traditional auction.
 - c. will cost the seller more in fees than the traditional auction.
 - d. will have fewer bidders than the traditional auction.

Answer: c

Reference: Limitations of E-Auctions

59. The first step in the auction process is:
- a. searching and comparing.
 - b. starting the auction.
 - c. bidding.
 - d. post-auction services.

Answer: a

Reference: Phase 1: Searching and Comparing

60. An auction aggregator:
- a. combines many smaller auctions into one large one.
 - b. collects bids from many independent bidders and presents them all at once.
 - c. collects items from manufacturers and liquidates them via an auction site.
 - d. sorts through many auctions on the Internet and tells the user what is being auctioned where.

Answer: d

Reference: Phase 1: Searching and Comparing

61. The lowest price a seller will accept for an item is called:

- a. the dynamic price.
- b. the static price.
- c. the reserve price.
- d. the selling price.

Answer: c

Reference: Phase 2: Getting Started at an Auction

62. A buyer issues instructions to a software program that specifies the initial offer and the maximum allowable offer. The software then bids in such a way as to minimize the final bid. This is an example of:

- a. proxy bidding.
- b. an illegal activity (it is against the law to allow a computer to place bids).
- c. a security violation.
- d. a Yankee auction.

Answer: a

Reference: Phase III: Auction Bidding

63. An auction site that specializes in items along the supply chain in only one industry is called:

- a. a forward auction site.
- b. a reverse auction site.
- c. a vortal.
- d. a Dutch auction site.

Answer: c

Reference: Additional Terms and Rules

64. The bid retraction policy used by most auction sites:

- a. gives bidders twenty-four hours to reconsider a bid before it becomes binding.
- b. considers all submitted bids to be binding contracts.
- c. allows only one bid per auction.
- d. specifies a retraction period, after which time the bid is binding.

Answer: b

Reference: Additional Terms and Rules

65. An interactive auction in which both buyers and sellers are competitive is called:

- a. a double auction.
- b. a single auction.
- c. a one-to-many auction.
- d. a Yankee auction.

Answer: a

Reference: Double Auctions

66. Bundle trading is:

- a. an auction where there are both many buyers and many sellers.
- b. an auction in which there is one buyer but many sellers.
- c. an auction where there is one seller and many buyers.
- d. a personalized purchase that would typically involve multiple sellers.

Answer: d

Reference: Bundle Trading

67. The major disadvantage of auctions is:

- a. the possibility of fraud.
- b. logistics.
- c. the slowness of the process.
- d. regulatory constraints.

Answer: a

Reference: Auction Fraud and Its Prevention

68. Compared to competitive markets, auction prices are often _____ when there are multiple bidders.

- a. lower
- b. the same
- c. higher
- d. less dynamic

Answer: c

Reference: Prices in Auctions: Higher or Lower?

69. Rather than sending money to the seller, a successful bidder sends his check to a third party, which holds the check until the buyer says to release it to the seller. This is an example of:

- a. an escrow service.
- b. an appraisal.
- c. grading.
- d. authentication.

Answer: a

Reference: Types of E-Auction Fraud

70. The practice by sellers of having associates place fake bids in an auction as a way to drive up the selling price is called:

- a. bid fixing.
- b. bid shielding.
- c. shilling.
- d. improper grading.

Answer: c

Reference: Types of E-Auction Fraud

71. The practice of a seller returning for refund a different item than the one purchased is called:
- a. bid fixing.
 - b. bid shielding.
 - c. shilling.
 - d. switch and return.

Answer: d

Reference: Types of E-Auction Fraud

72. Bidders sometimes use phantom bidders to drive bid prices up rapidly at the beginning of an auction, thus discouraging bidding from legitimate bidders. At the last minute, the phantom bidders pull out, which awards the item to a very low bidding customer. This practice is called:
- a. bid fixing.
 - b. bid shielding.
 - c. shilling.
 - d. improper grading.

Answer: b

Reference: Types of E-Auction Fraud

73. Jeff wants to know if the first edition novel he just purchased through an e-auction is, in fact, a first edition. The auction host helps him locate an expert that will tell him whether the novel is truly a first edition or a fake. This is an example of:
- a. appraisal.
 - b. auctioneering.
 - c. grading.
 - d. authentication.

Answer: d

Reference: Protecting Against E-Auction Fraud

74. A major shortcoming with authentication services is:
- a. two different authenticators may come up with different opinions regarding the authenticity and description of a given item.
 - b. it is impossible to tell whether many items are reproductions or authentic.
 - c. dishonest authenticators are the primary sources of fraud on the Internet.
 - d. most auction sites forbid the use of authentication services.

Answer: a

Reference: Protecting Against E-Auction Fraud

75. A service provider that provides professionals who determine whether an item is genuine and described accurately is called:
- a. an identity verification service.
 - b. an authentication service.
 - c. a grading service.
 - d. a feedback forum.

Answer: b

Reference: Protecting Against E-Auction Fraud

76. A buyer mails a check to this service. The service notifies the seller that the money has been received. The seller then releases the item purchased. After a specified period of time, the satisfied buyer instructs the service to release the money. This is an example of:
- a. an auctioneer's typical duty.
 - b. an infomediary.
 - c. an escrow service.
 - d. syndication.

Answer: c

Reference: Protecting Against E-Auction Fraud

77. All of the following are steps in the negotiating process **EXCEPT**:
- a. the two parties interact with bids and offers until an agreement is reached.
 - b. the static price is paid by the buyer to the seller.
 - c. the buyer pays for the product and the seller ships it.
 - d. the buyer or seller gathers information about products or services and locates potential vendors or customers.

Answer: b

Reference: Technologies for Bargaining

78. A Web site matches up a CPA who provides an audit to a mechanic in exchange for new tires and a tune-up. This is an example of:
- a. a bartering exchange.
 - b. a forward auction.
 - c. a reverse auction.
 - d. selection.

Answer: a

Reference: Bartering

Essay Questions

79. What is dynamic pricing?

Answer: In dynamic pricing, prices rise and fall based on supply and demand at any particular point in time. Prices will change regularly and often quickly.

Reference: Fundamentals of Dynamic Pricing and Auctions

80. Lists three potential benefits for sellers in e-auctions.

Answer: Three of the following:

1. Increased revenues by broadening customer base.
2. Increased revenues by shortening cycle times.
3. Gain pricing sensitivity information that can be used in pricing products in static markets.
4. Disintermediation allows lower pricing.
5. More interactions with customers can lead to customer loyalty.
6. Sellers can use auctions as a way to liquidate old inventory.

Reference: Benefits to Sellers

81. List three potential benefits for buyers in e-auctions.

Answer: Three of the following:

1. Opportunity to find unique items and collectibles.
2. Opportunity to bargain through bids rather than paying a fixed price.
3. Buyers can remain anonymous.
4. Buyers can place bids from anywhere.

Reference: Benefits of E-Auctions to Buyers

82. List and describe four types of fraud that exist in e-auctions.

Answer: Four of the following:

1. Loss and damage claims – Buyer claims the item was never received, or was received in a damaged condition.
2. Switch and return – Buyer returns the purchased item damaged, or substitutes a damaged item similar to the one purchased.
3. Failure to pay – Buyer simply never pays for what he/she bought.
4. Seller gives fake or misleading descriptions of the items for sale.
5. Seller uses improper grading of the items it offers.
6. Seller sells reproductions but claims they are originals.
7. Seller charges high shipping or handling charges.
8. Seller doesn't ship purchases.

Reference: Types of E-Auction Fraud

83. Explain how the Internet can assist in facilitating bartering.

Answer: The first step in bartering is finding another party willing to offer something you want in exchange for goods you possess or services you can provide. The Internet can help match up parties interested in exchanging. Once the parties have found one another, the Internet can serve as the means of negotiating the exchange. These services can occur with or without the help of an intermediary.

Reference: Bartering

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