

**CURRENTLY AVAILABLE 4 FORMATS OF AUCTION TRADING (ENGLISH, DUTCH, SEAL FIRST PRICE , VICKRY) WIDELY DISTRIBUTED IN THE WORLD AND THEIR PROS AND CONS IN THEIR MANAGEMENT MECHANISM**

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**Abstract:** Auctions are a very popular form of trade in many countries today, particularly in Europe, America, China, Japan, and Arab countries. In them, an object is put up for public sale and a kind of competition is organized among buyers to buy this object, and whoever pays the most money wins the sale.

This article mainly discusses the 4 formats that are currently common in the world. (English, Dutch, sealed first price, vickry) auction sales, their positive and negative aspects are covered.

**Keywords:** English auction, Dutch auction, first sealed auction, Vickrey auction, first auction in history, auction sale, auctioneer, auctioneer, auctioneer, auction winner.

Auction trading has been developing on a global scale for several hundred years, as a result of development, certain formats have emerged, in addition, the type of auction, design, mechanism and rules of procedure have been formed, all auction formats have certain rules and forms. That is, English, Dutch, sealed first price auction, Vickry auction formats all have different individual characteristics and express their own content and essence. The word auction (Latin auction) means “special auction markets, the sale of goods to interested buyers”.

Currently, there are 4 formats in the world. (English, Dutch, sealed first price, vickry) auction sales are common, and they consist of:

**Dutch auction format** – in which the highest maximum price of the object being sold is determined and announced as the starting price. There are open and closed types of auction sales in this format, depending on the type of sale (Figure 1):

- open type means that bidders can see each other's bids and the number of participating bidders during the auction.

- closed type, in which auction participants cannot see each other's bids and the number of participating bidders during the auction, this is mainly done when using automated mechanisms, that is, when bidders place bids by pressing buttons located on the rostrum.

In addition, there are open and closed forms of the above types, according to the composition of the participants (Figure 1):

An open form is a trading mechanism in which everyone can participate.

A closed form is a trading mechanism in which only persons specially invited by the auction organizer can participate.

During the auction, the starting price of the object gradually decreases until the bids are reduced to the price agreed to by the first buyer who expressed interest in purchasing the object.

This auction format gets its name from its popularity in the Netherlands. Its distinctive feature is that it is a wholesale auction in which the seller can offer several items at once and conduct a quick sale.

(Figure 1)



The Dutch auction format is divided into 2 different types of sales, and the types are also divided into 2 different forms.

The essence of the Dutch auction is that the auctioneer first sets the maximum price, which is displayed on a screen installed in the auction hall. If none of the buyers expresses a desire to buy the lot at this price, the auctioneer begins to lower the price. The first buyer of the object presses the button in front of him, which stops the price decrease on the screen, and the participant number of this buyer registered with the auction organizer appears on the screen. The owner of this number is considered the buyer of this lot. This method of holding an auction significantly speeds up the auction and allows you to sell up to 600 lots per hour<sup>1</sup>.

**English auction format** - this format is known and popular all over the world, one of the specific definitions of this auction is that it is called an open auction (bids of the participants in the auction are known to each other during the auction process). There is only an open type of auction in this format, according to the type of sale (Figure 2). There are 2 types of open English auctions, called direct (classical) and reverse (reverse, abbreviated), according to the method of sale (Figure 2):

The direct (classic) style of English auction is considered to be a pure English auction.

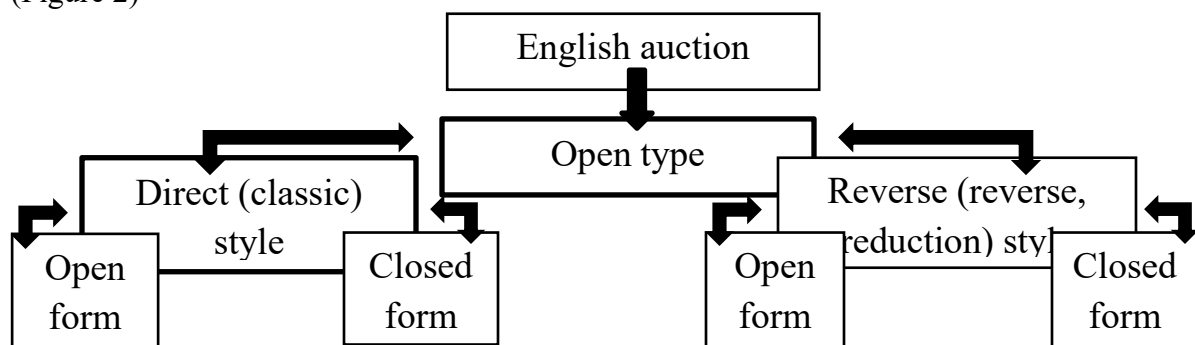
The so-called reverse (reverse, abbreviated) English auction is actually an open type of Dutch auction, which means that the so-called reverse (reverse, abbreviated) English auction was created as a result of the combination of Dutch auction and English auction.

In addition, there are open and closed forms of the styles, according to the composition of the participants (Figure 2):

An open form is a trading mechanism in which everyone can participate.

A closed form is a trading mechanism in which only persons specially invited by the auction organizer can participate.

(Figure 2)



The open type of the English auction format and its 2 different styles, and the division of styles into 2 different forms are reflected.

**Direct (classical) style** of the English auction, in open and closed forms according to the composition of the participants, the starting price of the object gradually increases and the offers

<sup>1</sup>[https://ru.wikipedia.org/wiki/%D0%93%D0%BE%D0%BB%D0%BB%D0%B0%D0%BD%D0%B4%D1%81%D0%BA%D0%B8%D0%B9\\_%D0%B0%D1%83%D0%BA%D1%86%D0%B8%D0%BE%D0%BD](https://ru.wikipedia.org/wiki/%D0%93%D0%BE%D0%BB%D0%BB%D0%B0%D0%BD%D0%B4%D1%81%D0%BA%D0%B8%D0%B9_%D0%B0%D1%83%D0%BA%D1%86%D0%B8%D0%BE%D0%BD)

are announced to the participants. Prices gradually increase at the auctioneer's suggestion or at the request of the participants. Participants have the opportunity to revise their offers depending on the actions of competitors. The participant who offered the highest price wins. A participant who does not want to buy at the price set by the auctioneer signals or informs the auctioneer that he has left the auction. The auction continues, the price offered to the participant who has left the auction, is offered to other participants in the auction until there is one winning participant. The minimum starting price is formed by the supplier, seller or owner of the object, and setting this price above the market price discourages potential buyers from participating in the auction. All auction participants may participate in the auction in person or through their representatives. Sometimes, in auctions where representatives participate, the representative contacts the participant via communication (telephone, internet) to notify of price changes and request their reaction.

**The reverse (reverse, reduction) method of the English auction** is actually an open type of the Dutch auction, that is, the so-called reverse (reverse, reduction) method of the English auction was formed as a result of the coordination of the Dutch auction and the English auction. In open and closed forms, depending on the composition of the participants, the maximum price of the auction object gradually decreases during the auction. The participants in the auction may not be bidders, but rather offerors, sellers, suppliers of goods and owners of the object. It is gradually reduced until the last seller remains who agrees to sell the object or provide services at the price offered by the auctioneer (auction organizer).<sup>2</sup> All participants in the auction may participate in the auction in person or by their representatives. Sometimes, in auctions where representatives participate, a representative contacts the participant via communication (telephone, Internet) to notify of price changes and ask for their reaction.

**First-Price Sealed Auction Bidding Format** - In this type of auction, bidders submit sealed bids, and the highest bidder wins the item at a price equal to their bid. This auction format encourages bidders to bid their true price because if they win, they will have to pay what they bid.

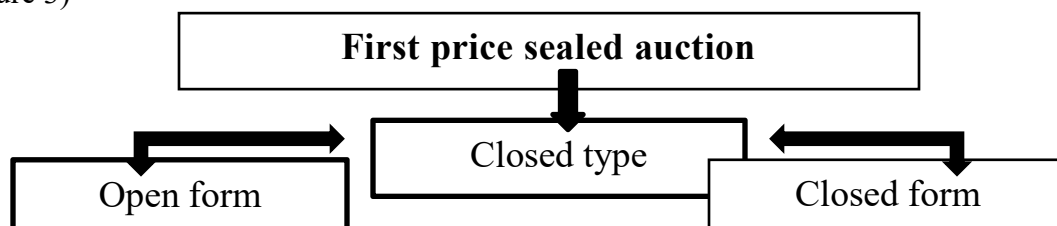
There is only a closed type of auction in this format, according to the type of auction (Figure 3). The closed type is when auction participants, when submitting bids through envelopes during the auction and in the pre-auction period, cannot see each other's bids and the number of participating participants.

In addition, there are open and closed forms of the above types, according to the composition of the participants (Figure 3):

The open format is a trading mechanism where anyone can bid.

A closed form is a trading mechanism where only individuals specifically invited by the auction organizer can bid.

(Figure 3)



<sup>2</sup>[https://ru.wikipedia.org/wiki/%D0%90%D0%BD%D0%B3%D0%BB%D0%B8%D0%B9%D1%81%D0%BA%D0%B8%D0%B9\\_%D0%B0%D1%83%D0%BA%D1%86%D0%B8%D0%BE%D0%BD](https://ru.wikipedia.org/wiki/%D0%90%D0%BD%D0%B3%D0%BB%D0%B8%D0%B9%D1%81%D0%BA%D0%B8%D0%B9_%D0%B0%D1%83%D0%BA%D1%86%D0%B8%D0%BE%D0%BD)

A sealed bid auction format, auctions are held in both closed and open formats. organizational work

However, this format can lead to a winner's curse, where the winner may end up paying more if their bid is higher than that of other bidders.

The winner's curse is a phenomenon in auction theory in which the winning bidder tends to overpay for an item relative to its true value. This occurs when bidders have imperfect information about the value of the item and base their bids on it. Understanding the winner's curse is crucial for bidders to avoid overpaying and for auctioneers to set appropriate starting prices.

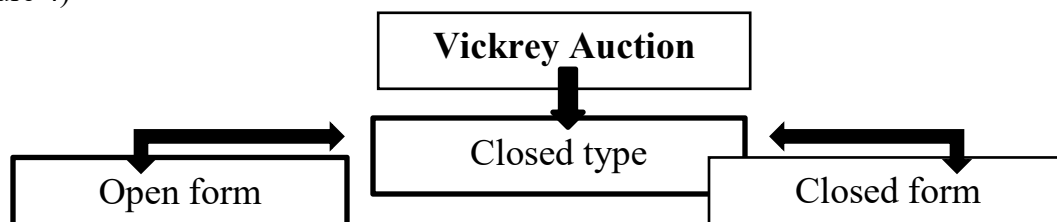
**The Vickrey auction format**, or sealed second-price auction (SBSPA), is a type of sealed auction. Bidders submit written bids without knowing the bids of other bidders. The highest bidder wins, but the price paid is the second highest bid. This auction format is strategically similar to the English auction format and encourages bidders to bid their true value. There is only one closed auction format, which is classified by type of auction ( Figure 4). A closed auction is one in which bidders cannot see each other's bids or the number of bidders participating during the auction and during the pre-bid bidding process.

In addition, there are open and closed forms of the above types, according to the composition of the participants (Figure 4):

The open format is a trading mechanism where anyone can bid.

A closed form is a trading mechanism where only individuals specifically invited by the auction organizer can bid.







(Figure 4)



Vickrey auction format, auctions are held in both closed and open forms. organizational work

Example of a Vickrey auction :

Six people are bidding for antiques at a Vickrey auction. Each person states the maximum amount they are willing to pay for the antiques, as shown below. Who will win the Vickrey auction, and what will be the price paid for the antiques?

Individual A \$103	Individual B \$101	Individual C \$100.50
		
Individual D \$99.50	Individual E \$99	Individual F \$98
		

Physical person A his/her own the most high offer 103 dollars that it was because of who increased in trade win However, A person the most high offer price he/she/it does n't



pay second the most high the price pays. Our in our example she is only 101 dollars pay need It will be. because of, A of the person to pay maximum ready 103 dollars organization does and she is antique thing for only 101 dollars pays. Offer price 2 dollars excess.

Physical individuals their own to pay from readiness higher offer that they do understanding for above example our expansion possible. Reminder We are dead, Vickrey who increased in trade participant maximum to pay from readiness high or low the price offer to do for no how incentive no

For example:

Is the offer above the maximum willingness to pay?

If individual B's maximum willingness to pay is \$101 and he bids \$105, he is at risk of paying a higher price than he is willing to pay (this risk only arises if the first-place bidder's bid is higher than the individual's maximum willingness to pay).

In this case, the first-place winner would be Individual A, whose price would be \$103 - a \$2 shortfall from Individual B's maximum willingness to pay.

Is the bid below the maximum willingness to pay?

If Person A has a maximum willingness to pay of \$103 and bids a low price of \$100, he is at risk of losing the bid at the price he is willing to pay. (This is considered a risk because it only occurs if another bidder places a bid higher than the low bid.)

In this case, Person B wins the auction for \$101 and only has to pay Person C's price of \$100.50

If Person A rejects the bid, he loses the bid and the winner only has to pay \$100.50 - which is less than Person A was willing to pay.

In a Vickrey auction, bidders are unaware of other bidders' bids. The winning bidder does not pay the winning bid price - they pay the second highest price.

In such an auction, individuals are encouraged to bid their maximum willingness to pay. In the absence of a deal, there is no incentive to bid above or below an individual's maximum willingness to pay.<sup>3</sup>

## CONCLUSION

Our conclusions from our research are as follows:

1. **(Applies to all auction sales formats and sales of non-state objects).** It is natural for the buyer to want to purchase the object put up for auction in a condition free of unnecessary expenses during the process of visiting and studying it. As a result, the owner of the object and the buyer reach an agreement, and the owner withdraws the object from the auction, and directly signs a purchase and sale agreement with the buyer. As a result, the auction organizer has no financial interest, which leads to the failure of the auction.

2. **(Applies to all auction sales formats and sales of state and non-state objects).** Buyers who want to buy an object at an auction must pay a deposit of a certain percentage of the starting price of the object, and in many cases, when 2 or more buyers participate in the auction, a sales division is introduced as a rule. In most cases, after the buyer pays a deposit for himself, he is forced to find an artificial competitor for himself and pay a deposit for him, considering the possibility that if only one participant participates in the auction, the sale will not take place, which requires additional costs and time from the buyer of the object. This situation is characteristic of the English format auction.

<sup>3</sup> <https://corporatefinanceinstitute.com/resources/economics/vickrey-auction/>

3. (All auction formats and regarding the sale of state and non-state objects). In the auction process, collusion among bidders occurs when a buyer attempts to purchase an item by artificially lowering the price, or fails to pay for an item sold at an auction at a higher price due to artificially inflating the price and manipulating the price.

#### RECOMMENDATIONS FOR ELIMINATION

**Our recommendations based on our research are as follows:**

1. (Related to the sale of non-state objects) A situation that can occur in any type of auction format, that is, the buyer naturally wants to purchase the object put up for auction in a state free of unnecessary expenses during the process of visiting and studying it. As a result of mutual agreement between the owner of the object and the buyer, the owner of the object withdraws the object from the auction and directly signs a mutual purchase and sale agreement with the buyer, which does not bring financial benefits to the auction organizer, and leads to the auction not developing. To eliminate this situation, when concluding a contract between the auction organizer and the seller, that is, the owner of the object, the clauses of the contract should reflect that if the object is not sold at the auction, the expenses incurred by the auction organizer for advertising and promotion must be covered by the seller.

2. (Regarding the sale of state and non-state objects). A situation that can occur in any type of auction format, that is, buyers who want to purchase an object at an auction must pay a deposit in the amount of a certain percentage of the initial price of the object and then participate in the sale. Also, in the event that 2 or more buyers participate in the auction, the sale is often determined as a sales rule, in most cases the buyer, after paying the deposit for himself, is expected to participate in the sale alone, and in this case, taking into account the possibility that the sale will not take place, is forced to find an artificial competitor for himself and pay a deposit for him, which requires additional costs and time from the buyer of the object. To eliminate this situation, if only one buyer participates in the auction, it is considered expedient to sell at the minimum sale price set by the seller or owner.

3. (Related to the sale of state and non-state objects). A situation that can occur in any type of auction format, that is, during the auction process, there are cases of artificially inflating the price (manipulation) and non-payment of money among the participants. The only way to eliminate these situations is to determine the amount of the deposit, deposit, paid to the account of the auction organizer by the participants before participating in the auction, in the contract concluded with the participant, at a higher percentage based on the assignment, and to have a larger deposit, deposit. In the event that the participant artificially inflates the price of the object at the auction, the condition of non-return of the deposit should be included in the contract clause. Also, in cases where participants who have applied to participate in the auction sale of an object but do not participate in the auction process are observed, it is necessary to include a clause in the contract concluded with the participant, which provides for the withdrawal of the object from the auction organizer, considering it a case of collusion between the participants.

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