Sniping as a Rational Strategy on Ebay

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Abstract

Sniping or last minute bidding is a commonly observed bidding behavior on Internet auctions with hard deadlines such as Ebay: bidders tend to bid aggressively in the last minute of the auction, often times revising their best bid. This behavior runs contrary to established wisdom in the literature on sealed bid second-price auctions or Vickrey's auction and has puzzled economists. In this article, we take a simple yet novel approach to understanding this behavior by introducing the notion of endogenous congestion arising from *effectively* simultaneous bidding by bidders. We study a two-bidder problem where the bidders' valuations are independently drawn from a uniform distribution. We show that sniping is indeed rational for the bidders and is independent of their private valuation. We extrapolate our results to the case of *n* bidders.

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