

# MEMENTO DE AUCTIONE

**An English Auction Abecedarium**

*Twenty-Four Useful Quotes  
To Impress Your High-End Auctioneer*

MMXVI

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*“Auctionis vero miserabilis aspectus:  
vestis Pompei non multa eaque maculosa;  
eiusdem quaedam argentea vasa collisa,  
sordidata mancipia, ut doleremus quicquam esse  
ex illis reliquis quod videre possemus. Hanc  
tamen auctionem heredes L. Rubri decreto  
Caesaris prohibuerunt. Haerebat nebulo: quo se  
verteret non habebat”.*

*“Ah, what a miserable sight was that auction.*

*Some tapestries of Pompeius, just a few and stained at that; a few silver vessels, also his, all battered; some squalid slaves. So that we grieved that there was any thing remaining to be seen of these miserable relics. However, the heirs of Lucius Rubrius halted the auction by means of a decree issued by Caesar. The spendthrift was stuck; he had nowhere to turn.”*

(Marcus Tullius Cicero, *Second Philippic*, VIII Kal. Nov. Anno 710 ab urbe condita (24 October 44 BC), sections 73-74).

A public speech delivered 2,058 years ago on the public auction of Pompey's patrimony held at the Forum, symbol of the victory of Caesar in the Civil War).

## Note:

*The use of economics in describing auctions certainly allows one to prove theorems that provide optimal mechanisms with unrealistic assumptions such as the indefectible appetite of buyers.*

*Well, on the other hand, the theory may be a useful guide to identify important features and design a system that accommodates the needs of market participants in as simple a manner as possible.*

A



**Auction fever** — an emotional state elicited in the course of one or more auctions that causes a bidder to deviate from an initially chosen bidding strategy. Increasing the number of bidders increases the fever. Also :

*“Increasing the numbers of bidders increases the revenue on average of the seller.” “Should the number of bidders approach infinity, the price would tend to the highest possible valuation”* (Holt Theorem, 1979). This would be described in auction theory as Perfect Competition.

In reference to Paul Milgrom it was said that *“one of the most important lessons he took away from all his time studying auctions was that the game is always bigger than you think”* (*Putting Auction Theory to Work*, CUP, 2004 ).

John D. Rockefeller, Sr. at the age of 86. *“I was early taught to work as well as play, My life has been one long, happy holiday; Full of work and full of play ...”*

B



**Bidding:** from the Old English verb *béodan* (“offer, announce”) conflated with the Old English verb *biddan* (“ask, demand”) — the act of participating in an auction by offering to purchase an item for sale.

Risk aversion describes the behavior of bidders when exposed to uncertainty, a person is said to be *risk-averse*, *risk-neutral* or *risk-loving*. Attitudes towards risk have attracted the interest of the field of neuroeconomics. A 2009 study suggested that the activity of a specific brain area (right inferior frontal gyrus) correlates with risk aversion. A recent experimental study finds that people are more risk averse in the limelight than in anonymity.

*“Those are the two best words in English: Bidding and War”*  
(Evan Daugherty, screenwriter of *Divergent*).

Keith Gledhill winning the national junior singles, 1929.

C



**Commitment.** *"The advantage of commitment is that procedures can be adopted that induce the bidders to bid in desirable ways. And commitment matters because... of the seller's temptation to renege on its announced policy."*

In *The Strategy of Conflict*, Thomas Schelling explained the general advantages of commitment power: *if the buyer can accept an irrevocable commitment, in a way that is unambiguously visible to the seller, he can squeeze the range of indeterminacy down to the most favorable point. This follows from the paradox that "the power to constrain an adversary may depend on the power to bind oneself"*.

Registration deposits, payments made by prospective bidders ahead of time, can deter non-serious bidders from attending the auction.

Antonio Carrillo. *President Lázaro Cárdenas returns their lands to farmers, Mexico, 1934*, silver print.

D



**Dutch auction**, or clock auction, starting with a high price and reducing it until a buyer is found. The auctioneer begins with a high asking price which is lowered until some participant is willing to accept the auctioneer's price, or the seller's minimum acceptable price is reached.

Since a sale never requires more than one bid, this type of auction is convenient to sell cheap goods quickly, fruits, fresh flowers, wood, in true “everything must go” fashion.

With only one bid, there cannot be any dummy bid, ghost bid or false bid, made by someone in collusion with the seller or auctioneer, designed to create a sense of increased interest in the item (and, thus, additional bids). There is a lot of excitement on the part of the buyer, who can be terrified that he is overpaying, but no possible auction room fever, and no record price to be advertised.

Multiple portrait done with mirrors, c. 1918, photo post card.

E



**eBay and eBidding** – electronic bidding, whereby a person may make a bid without being physically present at an auction (or where the entire auction is taking place on the Internet). Revelation principle: A mechanism is incentive compatible if the mechanism is structured such that each bidder finds it in his interest to report his valuation honestly. Assume the absence of collusion among the bidders. The Revelation Principle asserts the following : *“For any mechanism, there is a direct, incentive-compatible mechanism with the same outcome.”* Ebay was created with little worry about two bidders colluding in an eBay auction — if two friends decide not to bid against each other for a digital camera they both want, it doesn't really matter, because there are lots of other bidders. Anonymity make it almost impossible to collude with all othe bidders.

Cosmonauts Leonov and Kubasov prepare to meet US astronauts in space in 1975. Vintage soviet silver print.

F



*(advertising)*

**Fake or Fortune?** *If you think you might have uncovered a sleeper but you need our help to take the next step, we'd love to hear from you for a future series. Please make sure you include clear photographs of the painting (front and back) and information about how/when you acquired the work. You can email your suggestions to:*

**[fakeorfortune@bbc.co.uk](mailto:fakeorfortune@bbc.co.uk),**

*Or post them to:*

**Fake or Fortune?  
BBC Broadcasting House,  
Whiteladies Road, Bristol, BS8 2LR**

A set of 188 daguerrotypes at auction, Lake district, 2007.  
Final selling price was £75,000 against an estimate of £80.

G



**Gaze.** Gaze means "to look steadily, intently, and with fixed attention." In one sense, it is a term popularized by the psychoanalyst Jacques Lacan for the anxious state that comes with the awareness that one can be viewed.

*"This practice, bidding off the wall, especially by high-end art auctioneers, consists of raising false bids at crucial times in the bidding in order to create the appearance of greater demand or to extend bidding momentum for a work on offer. To call out these nonexistent bids auctioneers might fix their gaze at a point in the auction room that is difficult for the audience to pin down."*

Looking out of the frame, French carte-de-visite 1860s, albumen print, 89x51 mm, on cdv blank mount.

H



**Hammer price** – the nominal price at which a lot is sold; the winner is responsible for paying any additional fees and taxes on top of this amount.

**The Fees and taxes** should be applied equally to avoid distortion among bidders. Taxes may be less for foreigners who may have to pay additional import taxes. Auctioneers and buyers are at rare times tempted to bargain on fees.

Art market price database websites list over 7.5 million auction sale results provided by the auctioneers. The reported sales figure becomes more flattering to the object and to the auctioneer when it includes fees and taxes.

Pierre-Louis Pierson. *La Frayeur* (Comtesse de Castiglione). 1861. 57x44 cm, Paris, Drouot, 19 March 2015, lot 222. Hammer price 250,000 euros for an opening price of 225,000 and a valuation of 300,000 euros.

1



**Increment** – a minimum amount by which a new bid must exceed the previous bid. An auctioneer may decrease the increment when it appears that bidding on an item may stop, so as to get a higher hammer price.

In an ascending open auction it is considered important to get at least a 50-percent increase in the bids from start to finish. Several observations indicate that the lower the opening, the higher the final winning bid. This is due to the increase in the number of attracted bidders.

In the first book auction after communist rule, in Moscow, 1992, the auctioneer opted for a geometric increase such that every increment was the double of the previous one : 40 rubles, 80, 160, 320, 640, 1280 rubles !

Étienne-Jules Marey (1830-1904). *14.10 m or Richard Sheldon Throw*. Station physiologique, hangar n°2, 1900. Binoche & Giquello, 12 December 2011, lot 210.

J



**Journal of Economic Literature** (JEL), where all articles of auction theory quoted in this booklet were first published.

The *Journal of Economic Literature* is a peer-reviewed academic journal on economics published by the American Economic Association. It was established in 1963. Official site: <https://www.aeaweb.org/jel/index.php>

Note: The *Journal of Economic Literature* originated a widely used classification system for publications in the field of economics, and the classification code for auction theory is *D44*.

The dramatic oven at public auction after the end of Henri Désiré Landru's trial, Paris, Drouot, 1922. Press print with publishing addition (Chaplin's Monsieur Verdoux).

# K



Key & Peele - Auction Block



10:00 / 10:00

(advertising)

**Key & Peele, *Auction Block*.** Key & Peele is an American comedy sketch television and web series launched in 2011.

In the *Auction Block* sketch, already seen on 8 January 2016, by 18,229,868 persons on the web, an auction takes place simultaneously on three blocks.

The topic of simultaneous versus sequential auction has been discussed by auction theoreticians to prepare the huge auction by the FCC of spectrum licenses. Sequential auctions are problematic when items are substitutes as well as complements, for example in that case of wave frequencies.

Here in the sketch the slaves in Lot A are popular with the plantation owners ; everyone bids on the slaves for sale at Lot A, much to the chagrin of the guys on Lot B and Lot C.

Screenshot : <https://www.youtube.com/watch?v=zB7MichlL1k>

L



**Latin origin** of the word: *auctio, auctionis* (Cicero) from *augeó* (infin: *augére*) which means: I increase, I augment, I enlarge, I spread, I lengthen, I exaggerate, I honor, I enrich (figurative), I exalt, I praise : *amplificó, laudó*. Opposite: *minuó*. Derived terms : *auctio, adaugeó, auctó, auctor, auctus, augéscó, augificó, augmen, augmentum*.

Descendants in English language: auction, auctioned, auctioneer, auctioneering. In German: auktion. In Czech: aukce. In Georgian: აუქციონი (aukcioni). In Hungarian: aukció. In Norwegian: auksjon. In Polish: aukcja. In Russian: аукцион (aukción). Swedish: auktion.

Joseph Girault de Prangey (1804-1892). Rome. Jupiter Tonnant, 1842. Full plate daguerreotype, (9½x7½ in.) estimated 30,000 reached 145,000 + 30 % commission, auctioned in Paris, Christie's, 12 November 2015.

M



**Mimetic desire.** *“We borrow our desires from others. Far from being autonomous, our desire for an object is provoked by the desire of another person — the model — for this same object.”*

What do we know about human desire? The dominant opinion, in science as well as in common sense, is that we fix our desire on an object in a completely autonomous way. By analyzing the novelistic masterpieces (Cervantes, Stendhal, Proust and Dostoïevski), René Girard reveals a different mechanism for the human desire.

*“Desire does not fix itself in an autonomous way according to a linear path between the subject and an object, but by imitation of the desire of an Other, according to a triangular plan : subject — model — object.”*

Leonid Alexandrovitch Firsov. Back from Koltushy Island, USSR, 1970, vintage silver print, 215x123 mm.

# N



Ewa Rudling, Paris May 1968. Vintage silver print.

**No reserve auction** or "absolute auction", an auction in which there is no minimum acceptable price, no minimum bid, the seller must honor the sale.

A transparent optimal auction design rarely chosen.

With a mix of English and Dutch auction, the opening bid is lowered until some participant is willing to accept the auctioneer's price, but increasing bids may start then.

The vendor and the auctioneer often adopt a risk-averse attitude and a high reserve price. Scholars Graham and Marshall (JEL, 1987) suggest that the auctioneer is right to adopt a high reserve price if he suspects collusion. Nevertheless, twenty years later Che and Kim (JEL, 2006) show that even if bidders collude, in many settings the seller can attain any revenue that is feasible without collusion (even large amount as for FCC auctions of spectrum licenses sold for billions of dollars).

O



**Outbid** (also spelled "out-bid" or "out bid") — to bid higher than another bidder.

Ascending auctions — as opposed to sealed-bid auctions— have the virtue of reducing regret: bidders need not “leave money on the table,” the euphemism for a bid substantially higher than the second highest bid. Such bids make the bidder appear to pay too much, which could harm the bidder’s career even if the bid was in fact *ex ante* optimal. In an ascending auction, actual competition, rather than an expectation about competition, forces bids to the level achieved, reducing regret.

On 18 June 2011, an outsider outbid all of the senior actors in the photography market. He was described as the lucky heir of a Texas petroleum fortune :

Gustave Le Gray (1820-1884) "Bateaux quittant le port du Havre", sold in Vendome for 917,000 euros, 18 June 2011.

P



**Proxy bid** (from Latin *prócuratió*) a bid placed by an authorized representative of a bidder not physically present at the auction. Proxy bids are common in auctions of high-end items, such as art sales (where the proxy represents either a private bidder who does not want his identity to be disclosed to the public, or a museum bidding on a particular item for its collection). If the proxy is outbid on an item during the auction, the proxy may either increase the bid or be required to drop out of the bidding for that item. A proxy may also be limited by the bidder as to the total amount to spend on items in a multi-item auction.

The main problem for the bidder is selecting which lot to bid on, as the previous or next lot may attract fewer competing bids, when for the representative it is to bid on the correct lot, not for the previous or the next lot.

Joseph Girault de Prangey (1804-1892). Caryatides, Athens 1842, daguerreotype, 12 November 2015.

Q



**Quality of an auction:** description and pricing accuracy and time required for preparing and conducting the auction. The number of bidders is of critical importance. Also the time elapsed between the first bid and the winning bid. Transparent rules and easy bidding tools.

When in August 1993, President Clinton authorized the U.S. Federal Communications Commission (FCC) to auction spectrum licenses, expert academic economists became involved. They emphasized four goals:

*“simplicity, efficiency, revenue, and diversity”.*

(More after ‘X-Y-Z’)

Portrait de M. Huet. Maître Godeau, 19 March 2015.

R

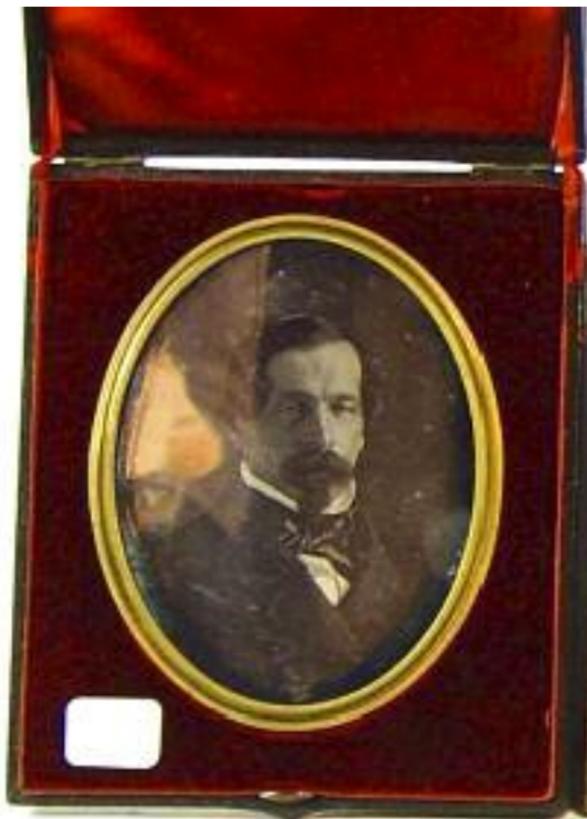


**Ring.** Whenever bidders at an auction are aware of the identity of the other bidders there is a risk that they will form a "ring" and thus manipulate the auction result, a practice also known as collusion. By agreeing to bid only against outsiders, competition becomes weaker, which may dramatically affect the final price level. After the end of the official auction an unofficial auction may take place among the 'ring' members. For each lot, the difference between the two auctions results is then split among the members.

A successful cartel among bidders must overcome four challenges: find a way to divide the profits, find a way to enforce the agreement (contracts to fix prices are illegal), fight against attracted new entrants (collusion leads to higher profits) and of course, anticipate the sellers' actions to disrupt the cartel (McAfee and McMillan, J.E.L., 1987).

Man Ray, no title, no date. Drouot-Estimations, Paris, 20 November 2007, lot 24.

S



**Sleeper.** A sleeper is a painting or object that passes miscatalogued through the auction rooms into the hands of someone who knows (or at least suspects) its real identity. It could have been over-painted, lost amongst a large collection in a busy saleroom, simply misunderstood or purposely unspecified. If several bidders covet a sleeper, the auction room knows fever.

Mystery auction is a type of auction where bidders bid for boxes or envelopes containing unspecified or underspecified items, usually with the hope that the items will be humorous, interesting, or valuable.

13 December 2015, a small cased image popped up in a suburban auction room: Sceaux. With an estimate of 100 euros for a group of 4 daguerrian portraits, the auctioneer, Maître Siboni, started lot 270 at 100 euros. The lot reached 64,000 euros plus premium.

T



**Third party guarantee.** A financial tool that introduced derivatives into auctions, which consequently distorted the entire Art Market. *“At first, Christie’s and Sotheby’s financed guarantees themselves. But in late 2008, in the wake of the collapse of Lehman Brothers and the near-collapse of the entire global financial system, the two houses presided over painfully weak sales of contemporary art, and were forced to pay out tens of millions in guarantees to consignors. Since then, the houses have pioneered the so-called “third-party guarantee”, a little-understood but critically important shift in art finance. These third-party guarantees decreased risk for the houses, but cut into their profits and may also have had market-distorting effects (...) The guarantor is still permitted to bid on the art he or she has guaranteed, which raises sticky questions about fairness and transparency.”* (The Guardian, *Going, going, gone: how Sotheby’s and Christie’s still lose out on big sales*, 30 January 2015).

U



**Uniques and multiples.** “*Multiples are united by their lack of uniqueness, usually regarded as a prerequisite in a work of art.*” (Wikipedia). Spurred on by Marcel Duchamp's ready-mades, the multiple became a subversive art-form.

Disillusioned by the approach to everyday objects manifested by Fluxus, Beuys wanted to reclaim the role of the object as art. He felt that as an artist he could channel energy from everyday objects and imbue them with new power and meaning. In a René Girard approach, mimetic desire of buyers perfectly fits with a production of multiples as clones. When it is important for an Art collector to qualify and describe the uniquenesses of his possessions, the obsession of risk-averse mimetic investors will be to buy perfect multiples without any identification mark. They may prefer to buy a title without viewing an object.

Nicolas Appert (1749-1841), *Conserves Alimentaires, Flageolets Moyens*, tin can prototype, France 1810s.

V



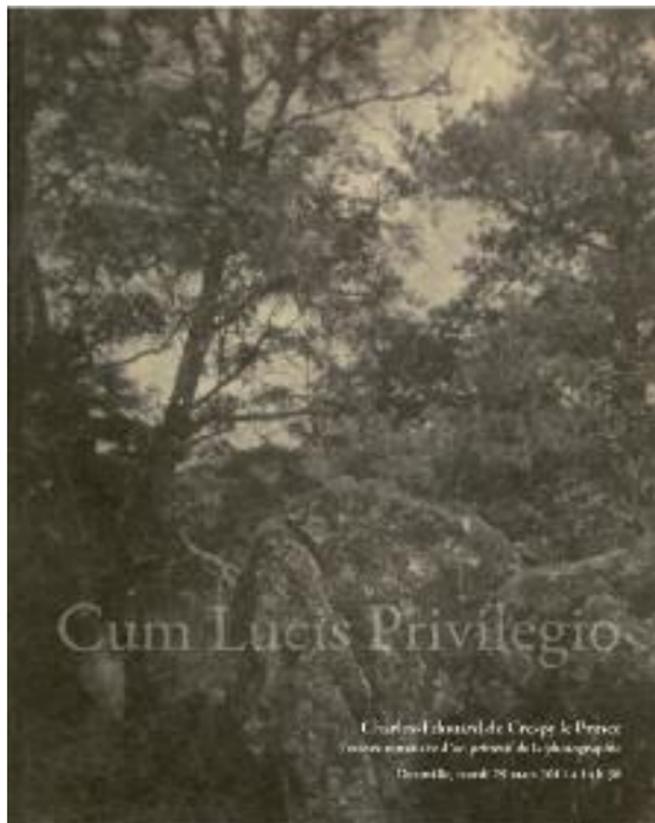
**Viewing and inspection.** *“All items listed in any auction are available for viewing and inspection prior to the sale. Faulty or damaged goods should be clearly marked, and faults are outlined by the auctioneer during the auction.”*

Viewing and inspection allows auctioneers and sellers to shift the burden of proof of fault should there be a dispute, and also allows buyers to discover sleepers and to turn cataloging errors to their advantage.

Classic “organic” auctions of antiques and collectibles are fascinating places and hold the opportunity for students and junior collectors for viewing a huge array of items.

*“Portrait daguerrien de l'entourage d'un peintre français”,* 6 June 2012, Paris, Palais d'Iéna. At the 1847 Salon, Clésinger created a sensation with his *Woman bitten by a serpent*, life-cast from his model Apollonie Sabatier.

W



**Winner's curse** is a phenomenon that may occur in common value auctions with incomplete information.

In short, the winner's curse says that in such an auction, the winner will tend to overpay or be "cursed" in one of two ways: 1) the winning bid exceeds the value of the auctioned asset such that the winner is worse off in absolute terms; or 2) the value of the asset is less than the bidder anticipated, so the bidder may still have a net gain but will be worse off than anticipated. In a common value auction, the auctioned item is of roughly equal value to all bidders, but the bidders don't know the item's market value when they bid, only their own estimates.

The winner, then, is the bidder with the highest hopes; thus, he is likely to overpay.

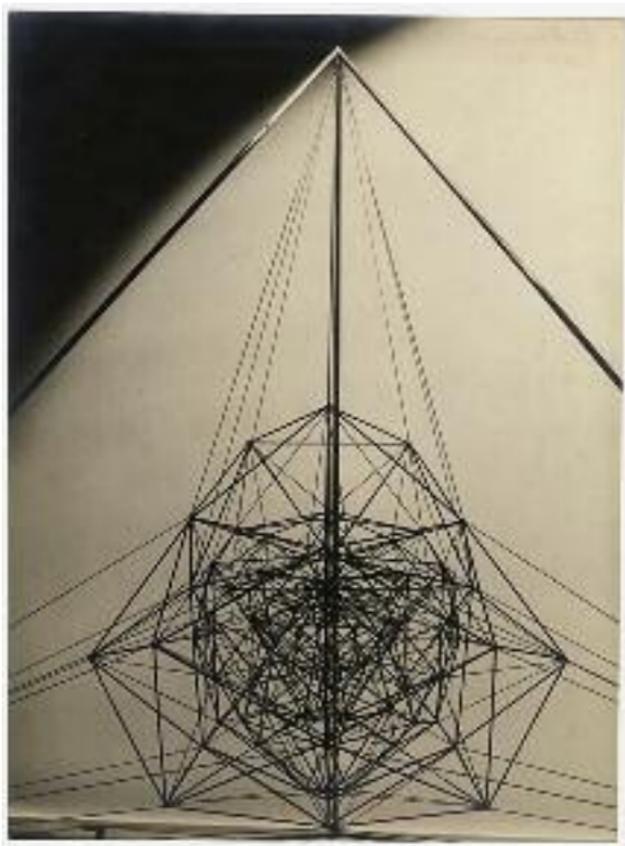
Charles-Edouard de Crespy Le Prince, *Cum Lucis Privilegio*, Artcurial Deauville auction advertising, 29 March 2011.

X

Y

Z

Man Ray, *Objet mathématique*  
Paris, 1935



**X-Y-Z Auction theory mathematical models.** Basic models consider all bidders similar but is it appropriate to represent them with the same behaviour and probability distribution?

Is it appropriate to accept four extreme assumptions?

- The bidders are risk neutral.
- The independent private values assumption applies.
- The bidders are symmetric.
- Payment is a function of bids alone.

Working for FCC, McAfee & McMillan answered: *“Many real world auctions fail to satisfy these assumptions”*.

*“Milton Friedman suggested a generation ago that the Federal Government auction off broadcast licenses, instead of giving them away to political favorites. In 1995, in the greatest auction in history, bidders for wireless places on a tiny fragment of the broadband spectrum committed nearly \$8 billion to the U.S. Treasury.”* (W. Safire, NYT, 16 March 1995)

## ***'The Greatest Auction in History'***

R. Preston McAfee, John McMillan, and Simon Wilkie, Caltech and Yahoo Research; Stanford University; and University of Southern California, 2008).

*"In August, 1993, President Clinton signed a historic law granting the U.S. Federal Communications Commission (FCC) the authority to auction spectrum licenses.*

*In order to run an auction, the FCC needed to choose an auction design...*

*Congress and many economists underestimated the number of choices in designing an auction. In modern business parlance, auctions have many "dials and levers" that can be used to tweak the performance and outcomes, but the very presence of these choices creates an enormous economic and political challenge.*

*Auctions weren't seriously considered for awarding spectrum licenses until two other methods ran into difficulty*

— *administrative allocation by comparative hearing and lotteries.*

*When Congress mandated the use of auctions, expert academic economists became involved. It is incredibly difficult for a bureaucracy to change an existing methodology that works moderately well, even if an alternative is clearly superior. Change involves career-destroying risks and opens lobbying doors that might result in worse choices.*

*Economists emphasized four goals: simplicity, efficiency, revenue, and diversity.*

*How well did the economists do in designing the auctions and what have we learned since? The FCC has run over 70 auctions in the past decade.*

*From this wealth of experience were distilled several key lessons and principles. In summary form, these are :*

*Promote information revelation:*

- Using ascending auctions*
- Providing bidding tools for analyzing bids*

*Promote substitution:*

- Making the lots similarly sized*
- Rounding the lots' sizes for the auction*

*Make the participation easy:*

- Providing easy bidding tools*
- Using fixed increments*
- Proposing to conceal identities of bidders*
- Allowing more time for good decisions*

*Provide simple, transparent rules.*

*Academic economists, working with FCC staff, created an auction form that has been used to sell over a hundred billion dollars of spectrum in dozens of countries.*

*The FCC auction has rightfully been credited as an important impetus to the adoption of game theoretic techniques in the business world.*

*The utility of economists in the private sector, long a subject of derision, was forcefully demonstrated by the application of sophisticated game theory in this real world setting.*

*The role of economics and the economist in the FCC auctions was not to prove a theorem that provided an optimal mechanism for some particular setting.*

*Instead, it was to use the existing theory to identify the most important factors, design a system that accommodates the needs of market participants in as simple a manner as possible, and to identify the features that may be important.*

*Theory, then, is a guide, not a destination.”*

If art market actors feel it important to rethink their auction model, auctioneers may consider, as the FCC did, the adoption of auction theory techniques.

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*Notes*

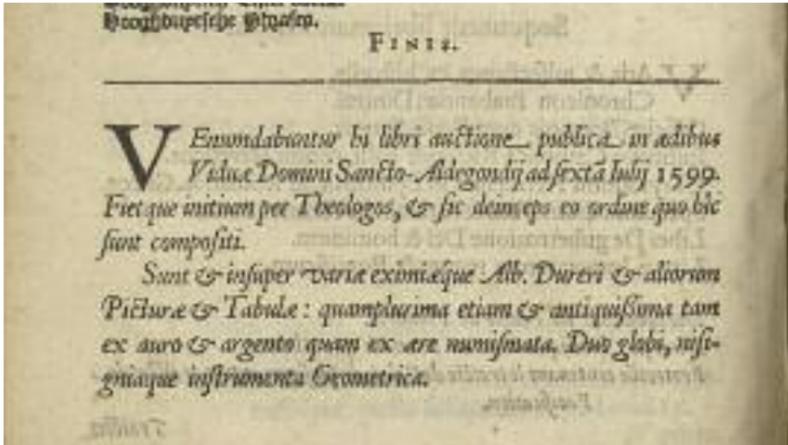
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Catalogus Librorum Bibliothecae Nobilissimi Clarissimiq; viri plae memoriae D. Philippi Marnixi Sancto-Aldegondij. Catalogue Van de Boecken des Edelen wijberoemden heeren Saligher ghedachtenisse Philips van Marnix heer van Ste-Aldegonde &c. Leyde: Christoffel Guyot, 1599.

This book was printed by IGO on 6 February 2016, 416 years and 5 months after what is the considered to be the earliest surviving printed auction catalogue, Leiden 6 July 1599, consisting of the library and objects of Philip of Marnix of Sainte-Aldegonde (1540-1598), not to be confused with his distant kinsman and cruel enemy of calvinists Philip of Sainte-Aldegonde of Noircarnes (1530-1574).