

Assignment #4

In October 1994, the Wall Street Journal highlighted "...the next—and perhaps the last—great wireless bonanza," the FCC auction of broadband Personal Communication Services (PCS) channels. After intense lobbying efforts by big players and room-high stacks of briefs to the FCC about how the auction should be designed, the FCC arrived at a prescription for the auction, briefly described in the overheads in your readings. Frantic negotiations to form partnerships and to influence (cow) potential competitors followed. The outcome is history. The auction appeared to be successful, but ended up as an unalloyed disaster for the federal government!

The sequel to this story is that the principal contributors to testimony before the FCC on how the broadband spectrum auction should be conducted banded together to form a consulting company called Market Design. Here is a quote from their web page:

"Founded in 1995, Market Design Inc. offers consulting services in the design of auction markets. Our principals are academic experts in auction theory and practice. We have advised governments and firms worldwide on the design of electronic markets for telecommunications, electricity, business-to-business e-commerce, mineral rights, and other assets. With our partners, Charles River Associates and TradingDynamics, we provide software and other support to implement our market designs. MDI has offices in Washington, DC, Palo Alto, CA, Austin, TX, and Jerusalem, Israel."

Check it out on the web! <http://www.market-design.com>

This class deals with auction type mechanisms from two perspectives. First, that of a bidder, who, *upon being given the rules under which an auction is to take place*, wishes to choose a bidding strategy to maximize her expected reward. The second perspective is that of the auctioneer: what bidding rules are fair, reasonable and encourage bidders to bid in a way that maximizes expected rewards to the auctioneer?

READ:

1. The October 1994 *Wall Street Journal* article and scan the summary description of FCC auction purposes and procedures that follow it.
2. Study the overheads describing sealed bidding and Vickrey auctions.
3. **Auction Vignettes:**
Prepare answers to the questions posed after each vignette. We will discuss these vignettes in class.
4. **Cybersettle:**
Cybersettle markets an innovative on-line dispute resolution system. Its principal customers are major insurance carriers. The bloom is off the rose of dot-coms. How should the company position itself to assure future profitability? This case provides background for Atlantis versus Biovent.