

## **Why is eBay the King of Internet Auctions? An Institutional Analysis Perspective**

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### **ABSTRACT**

Most consumer-to-consumer Internet auctions are isomorphic to the English auction. Bids in these auctions are visible to all participants, and prices are always ascending. Using the institutional analysis approach, this article identifies three specific online auction rules that facilitate implicit collusion among buyers. The use of these rules often leads to lower revenues for the seller and lower allocative efficiency of the auction outcomes. eBay's success has puzzled auction theorists because it was the only Web site whose auctions implement all three rules. Using a theoretical model of choice among institutions of exchange and results from experiments, this paper attempts to explain why sellers continue to use eBay even though at first sight this auction institution might not be the most profitable alternative. Estimates of eBay's efficiency losses due to implicit collusion among buyers are also provided.

**Keywords:** Electronic markets, Internet auctions, online consumer behavior, experimental methods.