

PLAY: Dollar Auction Game

015 min



PLAY



SUMMARY

The objective of this activity is to explore the cognitive biases that arise when we're making financial decisions. Students bid to win a twenty dollar bill in a simulated auction, then watch a video to learn about the biases that came into play.

MATERIALS & PREP

- Twenty dollar bill (paper, digital, or drawn)
- Video: [The \(Ir\)rationality of the Dollar Auction](#) (watch first to see how the game is played)
 - Note: The video uses an auction for a one dollar bill and this activity uses an auction for a twenty dollar bill, but the reasoning is the same for both cases

WHY IT'S FUN

Simulated competition!

Part I: Explain the Rules

- A. Explain the setup to students: You are about to participate in a simulated auction for a twenty dollar bill.
 - a. You will have the opportunity to make bids in an attempt to win the auction.
 - b. You can choose to stop bidding at any point.
 - c. There is one catch: only the highest bidder wins the twenty dollar bill, but the top two bidders have to pay the amount they bid, regardless of whether or not they won the auction.

Part II: Lights, Camera, Auction!

- A. Hold up a twenty dollar bill (or draw/project one on the board).
- B. Explain that the bidding will start at one dollar.
- C. Each student who would be willing to pay one dollar to receive the twenty dollar bill should raise their hand.
- D. Continue to increase the bidding amount one dollar at a time. If a student is willing to pay the new amount, they should raise their hand.

- E. Stop the bidding when there is only one bidder left who is willing to pay. This person would (hypothetically) win the auction and the twenty dollar bill.
- F. Take note of the dollar amounts of the top two bids. Remind students that the top two bidders would (theoretically) have to pay that amount, but only the highest bidder would receive the twenty dollar bill.

Part III: Reflection

- A. Watch [The \(Ir\)rationality of the Dollar Auction](#) video as a class.
 - a. Note: the video has been given a stop point at 4:13, but if you have time feel free to watch the whole thing
- B. Facilitate a class discussion using some or all of the questions below.

Possible Discussion Questions in Summary:

1. What was the winning bid?
2. Was there any point where you realized the dollar bill might sell for more than \$20? How did that impact your decision making?
3. If the winning bid was higher than \$20, why would someone pay more than what the bill is worth?
4. How did your auction compare to the example in the video? Describe any similarities or differences you noticed.
5. How does this game demonstrate the two cognitive biases: loss aversion and the sunk cost fallacy?
6. Now that you've seen the dollar auction play out and watched the video, how might you handle it differently if you were to play again?
7. Do you find it hard to quit something once you've started? Why or why not?
8. There's value in knowing when to quit, even if it means taking a loss. Do you agree or disagree?
9. Have you ever been faced with a decision where your best option was to quit, but you kept going anyway?