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THE VALUE OF REPUTATION IN ONLINE AUCTIONS: EVIDENCE FROM EBAY

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THE VALUE OF REPUTAION IN ONLINE AUCTIONS:
EVIDENCE FROM EBAY

A Thesis
Presented to
the Graduate School of
Clemson University

In Partial Fulfillment
of the Requirements for the Degree
Master of Arts
Economics

by
Ahmed Eddhir
May 2009

Accepted by:
Robert D. Tollison, Committee Chair
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ABSTRACT

Online auctions create reputation mechanisms to give users information about the reputation of their trading partners. This information helps the buyer to make an informed decision regarding his purchase: whether or not to make a purchase from a particular seller and the price the buyer is willing to pay. eBay is a leading internet auctioneer and in May 2008, it changed its feedback system. This paper examines the new feedback system and studies the impact of seller's reputation on auction's price. The empirical results show that buyers respond to the Positive Feedback ratings of sellers. However, the impact on the price is small.

DEDICATION

This paper is dedicated to my mother and father for their support and love. To my uncle Adel who always has been my source of inspiration throughout my life. To Professor Daniel K. Benjamin, who made me love economics. To my friend Projesh for his help and support. To my relatives, professors, friends, and supporters who have made this happen.

ACKNOWLEDGMENTS

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CHAPTER ONE

INTRODUCTION

Traditional markets depend on the trust that is built up through the interaction between buyers and sellers (Cabral and Hortacsu, 2005). On the other hand in online markets, buyers and sellers engage in transactions without any previous history of trust. Since the buyer cannot test the item, he relies on the seller's description and reliability to deliver the item. These issues make the online auction risky (Melnail & Alm, 2002).

Online auctions have developed an alternative option to the concept of traditional reputation by creating a feedback system. Through this system, reputation can be established and information about it is made available to others. The system collects information about all transactions of a seller that have happened in the past. This information is available for a prospective buyer who can base his decision to buy or not from this seller based on this information (Cabral & Hortacsu, 2005).

In 1995 eBay was launched as an online auction. Today with millions of items available on eBay, it has become one of the largest internet auctions. The eBay reputation system allows buyers and sellers to rate each other after each transaction. The system keeps records of all feedback left by previous trading partners. Access to this information is available to all participants in the marketplace. That makes eBay a rich environment to study the effects of seller's reputation on the auction's selling prices.

Since buyers in online auctions are not able to test and see the item, they depend on information that they get from sellers about their items. The reputation of the seller is the only available source to buyers about the honesty of the seller. Sellers in most cases

do not ship the items until they receive payment. This paper examines the effects of the seller's reputation on the price of the seller's good. Statistical data were derived from the eBay website about the feedback history of sellers and the prices of the goods. About 490 auctions of iPhone 3G were investigated to find how the feedback from previous transactions would affect future transactions.

Several economists have studied the effects of seller's reputation on auctions' selling prices. Melnik and Alm (2002) used data from auctions of 1999 mint condition \$5 U.S gold coin. The average price of these items was \$ 32.73. The results showed that the buyer is willing to pay more to sellers with higher reputation. However, the impact on the price was very minor. Houser and Wooders (2005) examined the effect of reputation on prices of Intel Pentium III 500 Mhz auctions on eBay. They found that bidder reputation has no effect. While seller reputation matters, it is not significant.

In May 2008, eBay changed its feedback system. This paper investigates the new feedback system and studies the impact of seller reputation on buyer behavior. To the best of my knowledge, there are no previous paper studies of the new eBay reputation system. I have found that the percentage of positive feedback has a positive and statistically significant effect on the price of the seller's good.

This paper is structured as follows. Section 2 explains how eBay reputation mechanism works; section 3 describes my approach for estimating the impact of reputation; section 4 discusses the dataset; section 5 presents the main empirical results; and finally section 6 concludes the paper.

CHAPTER TWO

AUCTIONS ON EBAY

All the information about eBay in this section comes from the eBay website. In order to buy or sell on eBay, a person needs to register first by providing some personal information such as name, address and an email account. eBay uses this information to verify a person's identity. This reduces a person's chance of restarting with a new record. However, it does not prevent it. After the registration process is done, the person chooses an eBay's identity. Other members on eBay are only able to see the member's ID but not any other personal information. Finally a person receives an email message to confirm their email address (Grund & Gutler,2006) (eBay website).

eBay's income comes from charging sellers (Melnail &Alm, 2002). A seller can place an item on eBay for sale by creating an offer page. On this page the seller describes the item, specifies a starting price, and explains the details of the sale, such as the method of payment and shipping cost. It is the seller's responsibility to ship the item. In addition, the seller chooses when the auction starts and the length of the auction. A seller may add more details on his offer page such as return policy, and they may post pictures, and so on (eBay website), (Melnail &Alm, 2002), (Grund & Gutler,2006), (Lucking-Reiley et al, 2006).

Subsequent to each transaction, both the buyer and the seller are able to leave feedback for each other. After May 2008, the buyer can rate the seller as a +1 (positive), a -1 (negative), or a 0 (neutral) rating, along with a short comment. On the other hand, the

seller can leave only a +1(positive) and a one line text comment (Cabral & Hortacsu, 2005), (Grund & Gutler, 2006), (Lucking-Reiley et al, 2006), (eBay website).

eBay measures the reputation of the user in two ways; the percentage of positive feedback ratings¹ and the feedback score, and the difference between the number of positive feedbacks and negative feedbacks². The user's profile contains all feedback points and comments that are left by other partners with whom the user has had previous transactions. The profile is available to public (Melnail & Alm, 2002), (Cabral & Hortacsu, 2005), (Resnick et al, 2005), (eBay website)

On the top of the auction page, the feedback score and the percentage of positive feedback ratings are automatically displayed next to the seller's ID. By clicking on the feedback score, a bidder can access the seller's feedback profile, where more information is available about the seller's reputation as well as comments that the seller has received from other members in the past (eBay website).

From February to May 2008 eBay was changing its feedback policies. According to eBay, the previous feedback system did not prevent sellers from retaliating against negative feedback from buyers (eBay website).” Today, the biggest issue with the system is that buyers are more afraid than ever to leave honest, accurate feedback because of the threat of retaliation. In fact, when buyers have a bad experience on eBay, the final straw

¹“Positive Feedback ratings: The percentage of positive ratings left by members in the last 12 months. This is calculated by dividing the number of positive ratings by the total number of ratings (positive + negative)” (eBay website).

² “. “It's the number in parentheses next to a member's user ID and is also located at the top of the Feedback Profile. Feedback score = positive + neutral + negative” (eBay website)

for many of them is getting a negative feedback, especially of a retaliatory nature" (Bill Cobb, president of eBay North America).

The main changes in eBay's feedback system are as follows. Since February 2008, sellers and buyers are allowed to earn one feedback point regardless of the number of transactions between the same trading partners. If a seller has more than one transaction in the same week with the same buyer, then the seller can get only one feedback point from the buyer. The feedback score of seller would increase by one if the seller gets more positive feedback points than negative points. It would decrease by one if he gets more negative feedback points than positive ones. And it would be the same if the number of positives is equal to the number of negatives ones, while the buyer's feedback score would increase only by one point (eBay website).

Since May 2008, only buyers are allowed to leave positive, negative or neutral feedback for sellers, while sellers are only allowed to leave positive feedback. According to eBay, this rule would encourage buyers to leave honest feedback without fear from retaliation from sellers. eBay believes that this makes the feedback system more accurate, (eBay website).

Only the feedback points that are earned in the last 12 months are used to calculate the positive feedback percentage ratings. According to eBay, a seller's recent feedback gives a clearer idea about seller's trends and patterns (eBaywebsite).

In the new feedback system, if a member does not pay fees or has violated eBay policies, the system would suspend the member's account. In such case all negative and neutral feedback left by that member would be removed (eBay website).

However, the new system does not allow sellers to leave a negative or neutral feedback about buyers. Sellers are still allowed to report any violation of a buyer. Also the system gives the right to sellers to prevent buyers who have violated eBay's policies from bidding or buying items. (eBay website)

There is no change in the feedback score. eBay still uses the same method to calculate the score (all positive feedback points that a member earns in a lifetime minus the negative feedback points that are earned by member in lifetime).

CHAPTER THREE

EMPIRICAL MODEL

The bidding amount reflects the consumer's willingness to pay and hence our focus will be on factors that influence the consumer's willingness to pay. Thus, primary interest of the paper is to examine the impact of a seller's reputation on the bidding amount as reputation affects the buyer's willingness to pay. However, there are other factors that may affect the willingness to bid besides reputation. Willingness to pay or bidding amount is primarily influenced by information about the seller, services and product.

Feedback rating provides information on a seller's behavior. As a result it generates a magnitude of trust in the mind of the bidder about the seller. Ultimately, the bidder reflects his/her satisfaction through the magnitude of the bid. Particularly, a higher feedback rating is expected to have a positive effect on the bidding amount. Reputation is measured on eBay in two ways; feedback score (positive feedback points minus negative feedback points), and positive feedback rating (the percentage of positive feedback ratings of the last 12 months).

In this study I use the positive feedback rating as an independent variable. I expect, that a positive feedback rating (PFR) has a positive influence on the auction price.

The number of bids (**Nbid**) is the number of prospective buyers who are aware of the auction, who are able to bid, and who have a value for the item. By using the number of bids I have omitted two other variables (the length of the auction and the time of the auction) since the number of bids reflect the demand for the seller's item. The seller's

skills like web design, photography and verbal descriptions are reflected in the number of bids for his items. I expect the coefficient on the number of bids to be positive.

The shipping cost (**Scost**) is included. It is the amount of money that the sellers charges to the buyer for shipping an item to him. It is not included with the price of the item. The rational bidder in general considers the total price that he is going to pay. As the seller charges a higher price for shipping, that will decrease the price that the buyer is willing to pay. I expect the shipping cost has a negative effect on the auction price.

Unlocking of the phones (**Unlocked**) is another important variable that affects the price of the iPhone. Unlocked phones are not tied to a particular service provider, thus the user can switch from one cellular network to another. Bidders are willing to pay more for unlocked phones. Unlocked is a dummy variable which is equal to one if the iPhone is not locked and zero if it is locked.

Buyers are willing to pay more for a new item than a used one. Thus I include a dummy variable (**New**) which is equal to one if the iPhone is new and never been used otherwise it is equal to zero.

My hypothesis is that buyers are willing to pay more to a seller with a high feedback than a seller without a strong reputation. In my initial modeling efforts, I tried to find the linear relationship between the winning bid (**P**), and the reputation variable Positive Feedback rating (**PFR**) for the seller.

The following model is used to show the above mention relationship,

$$P = \alpha_1 + \alpha_2 PFR + \alpha_3 Nbid + \alpha_4 Scost + \alpha_5 Ulocked + \alpha_6 New \quad (1)$$

The following variables are included in this model: **PFR** is the positive feedback rating for the seller, **Nbid** is the number of bids by sellers, **Scost** is the shipping cost in US dollars, **Unlocked** is a dummy variable equals to one if the iPhone is not locked, and the dummy variable **New**, which is equal to one if the iPhone has never been used. Table 1 shows the expectation signs

Table 1: Comparative Statics

		Sign
1	$\frac{\partial p}{\partial \text{FBD}}$	+
2	$\frac{\partial p}{\partial \text{PFR}}$	+
3	$\frac{\partial p}{\partial \text{Nbid}}$	+
4	$\frac{\partial p}{\partial \text{Scost}}$	-

It might be possible that the willingness to pay a higher price in response to better feedback will diminish as the reputation increases to 100%. The sellers who belong to the upper quintile of the feedback distribution are close to each other in terms of the quality of service. But those sellers who belong to the lower or middle quintiles are not so trustworthy. Thus, an equal amount of change in the magnitude of reputation is expected to have a different impact on the bidding price for a different range of the magnitude of the reputation. Therefore, to take care of such differential impact of reputation, I consider natural log of reputation as a key explanatory variable.

Since some sellers have zero feedback, I took the natural log of the value of reputation plus one. Other variables are entered in a linear form. Figure 1 shows the feature of the nonlinear relationship between bidding amount and feedback percentage. Figure 2 represents the feature of the data in the same dimension.

$$P = \alpha_1 + \alpha_2 \ln(PFR) + \alpha_3 Nbid + \alpha_4 Scost + \alpha_5 Ulocked + \alpha_6 New \quad (2)$$

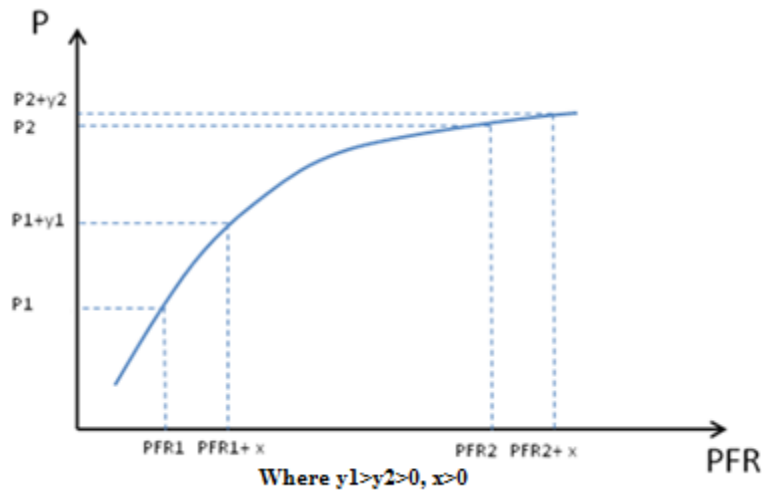


Figure1: winning bid-Positive feedback rating

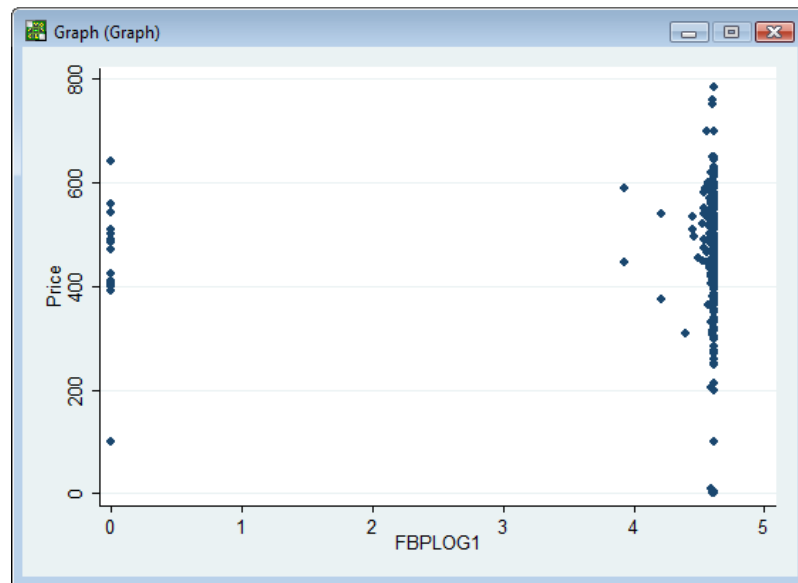


Figure2: the feature of the data.


CHAPTER FOUR

DATA DESCRIPTION

I have used identical items (iPhones) from different sellers that allowed me eliminate the effect of differences between items on price and test the value of reputation of seller. The problem of using identical items is finding enough observations, as there are not always many sellers who sell the same items on eBay. I collected the data over a short period of time in order to eliminate any change in the behavior of buyers. In order to have enough observations I chose iPhone because it is one of the most popular items being sold on eBay.

I manually collected data on auctions from eBay's website. However, I am focusing on items that are being sold only to customers in the U.S. I collected transaction level information on the Apple iPhones. The data was collected between October 28, 2008 and November 12, 2008. The price of iPhone 3G ranged from \$200 to \$785. The feedback ratings for a seller is updated automatically; therefore I collected the data at the end of the auctions.

On the offer page, the seller describes the item and adds other information about the transaction like shipping cost, transit time, places where he would ship his items, minimum bid, and sometimes add picture(s) of the item. eBay automatically provides information about the seller on his offer page such as seller's ID, feedback score (different between positive and negative feedback), percentage of positive ratings, and if the seller accept PayPal as a method of payment or not . Figure 3 shows an example of a seller's offer page.



1 of 3
[View larger picture](#)

FREE shipping

Winning bid: **US \$495.00**
Get 15% back - new eBay MasterCard [Apply Now](#)

Ended: Nov-04-08 08:08:00 PST

Shipping: **FREE shipping**
Standard Flat Rate Shipping Service
Service to [United States](#)
[\(more services\)](#)

Ships to: United States

Item location: Bolingbrook, Illinois, United States

History: **42 bids**

Winning bidder: r***s (27 ★)

You can also: [Email to a friend](#)

Meet the seller

Seller: **strong343 (396 ★)**

Feedback: **97.5% Positive**


Member: since Apr-18-03 in United States

- ▀ [See detailed feedback](#)
- ▀ [Ask seller a question](#)
- ▀ [Add to Favorite Sellers](#)
- ▀ [View seller's other items](#)

Buy safely


1. **Check the seller's reputation**
Score: 396 | 97.5% Positive
[See detailed feedback](#)

2. **Check how you're protected**

 **Buyer Protection with PayPal**
Pay with PayPal and the full price is covered. [See terms.](#)

Listing and payment details: [Show](#)

Description



Stock Photo

Item Specifics - Cell Phones & Smartphones

Carrier: **AT&T, Cingular**

Contract: --

Brand: **Apple iPhone**

Model: **3G**

Type: --

Manufacturer: **CHANNELIPHONE3G8GBBLACK**


Part Number:

Technology: **WCDMA (UMTS) / GSM 850/900/1800/1900**

Camera: **1-2 Megapixels**

Features: **GPS, Internet Browser**

Condition: --

Average Rating:  4.5/5 from 142 reviews
[See Reviews](#)

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Figure 3: seller's offer page.

The dataset contains the seller's ID, feedback score, percentage of positive feedback, winning bid in US dollar, the shipping cost in US dollar, number of bids, the date of posting of the auction on eBay, payment method, places where he would ship his items, if the seller accepts PayPal or not, whether the item is new or used and whether the item is locked or unlocked. Appendix-B shows the dataset that was used in this paper.

Table 2 shows the summary statistic for all variables.

Table 2: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Positive Feedback ratings (PFR)	490	94.63102	20.49742	0	100
Winning bid (P)	490	422.0923	187.2977	0	785
Number of bids (Nbid)	490	19.09388	17.45914	0	65
Shipping cost (Scost)	490	7.495286	9.423275	0	101.99
New	490	0.3877551	0.4877	0	1
Unlocked	490	0.544894	0.498489	0	1

CHAPTER FIVE

RESULTS

In this section, I present my main empirical findings. It is divided into three subsections. The first section deals with the linear specification of my model, and second section describes the nonlinear specification. The last section I added more specifications.

Linear regression

I tried to find a linear relationship between winning bid (P) and the Positive Feedback rating (PFR). In the first model I have included the independent variable Positive Feedback rating and the dummy variable (New). In the following model I included other variables. Table 3 below displays the linear regression results on the determinants of prices in the eBay Apple iPhone 3G auctions in my sample.

Column one represents the results for a linear regression which contains the Positive Feedback rating as an independent variable and the dummy variable (New) which indicate whether an item is new or used. The coefficient estimate for Positive Feedback rating has the expected sign and it is statistically significant at the 5% level. As the Positive Feedback rating increases by one percentage point, the winning bid increases by \$0.823. The dummy variable (New) has a positive sign, and it is also statistically significant at about the 5% level. The winning bid for a new item is \$ 61.79 higher than a winning bid for a used item. The R-squared is low (0.0332), only 3.32% of variability in the winning bid is reduced by knowing the independent variables.

Second column introduces other (extra) variables that may affect the winning bid of the auction besides Positive Feedback rating. These variables include number of bids,

shipping cost, and the dummy variable Unlocked. The dummy variable (New) is also included. The coefficient estimated for Positive Feedback rating has the expected sign, and it is statistically significant at the 5% level. As the Positive Feedback rating increases by one percentage point, the winning bid increases by \$1.166.

Table 3: Linear regression results

Full Sample, 490 obs.		
Model Number	1	2
Positive Feedback Ratings (PFR)	.823275* (0.049)	1.16568* (0.002)
Number of bids (Nbid)	—	4.30859* (0.000)
Shipping cost (Scost)	—	-2.41948* (0.003)
Unlocked	—	51.04343* (0.001)
New	61.79221* (0.000)	60.3374* (0.000)
Constant	319.7344 (0.000)	195.9067 (0.000)
R²	0.0332	0.2218

P-Values are in parenthesis.

* Indicates significance at 5% level

Number of bid (Nbid) has a positive influence on the auction price. The coefficient on this variable is positive and it is significant. As the Nbid increases with increment in price. As expected, the coefficient on shipping cost is negative and statistically significant. As shipping cost increase by one, the winning bid decreases by \$2.40.

The dummy variable (Unlocked) has a positive sign and it is statistically significant at about the 5% level. Unlocked iPhone increases the willingness to pay by \$51.04. If an item is new, it will increase the winning bid by \$60.33. The dummy variable New has a positive sign and it is statistically significant at about the 5% level. A new item is valued more highly by eBay users. The R-squared is higher in the 2nd specification (column 2). This second specification explains 22% of the variation in the winning bid, while the first specification explained only 3%.

Nonlinear regression

I studied a nonlinear relationship between the Positive Feedback rating and a winning bid. The independent variable ($\text{Log}(\text{PFR}+1)$) is a natural logarithm of the Positive Feedback rating plus one. The dummy variable New is included in all specifications. In the last specification, other variables were introduced with the Positive Feedback rating. Table 4 presents results for nonlinear regression models on the sample data. In the following, I highlight my most important results.

In the regression models, the coefficient estimate for a Positive Feedback rating has an expected sign in column one and two in table 4; it is statistically significant at the

5% level. 1% increase in positive feedback rating (i.e. 80% to 80.8%) will increase bidding amount by \$0.1898 in column one and \$0.2544 in column two. ¹

Number of bids is included in column two. As expected, the coefficient on number of bid is positive and statistically significant. As the number of bids increases by one, the winning bid increases approximately by \$4.03. The shipping cost has a negative influence on the auction price. The coefficient on this variable is statistically significant at the 5% level. As the shipping cost decreases by \$1, the winning bid increases approximately by \$2.30. The dummy variable (Unlocked) has a positive sign, and it is statistically significant at about the 5% level. The dummy variable (New) has a positive sign, and it is statistically significant at the 5% level. A new item is valued more highly by eBay users.

$${}^1 P = \alpha_1 + \alpha_2 \ln(PFR) + \alpha_3 Nbid + \alpha_4 Scost + \alpha_5 Ulocked + \alpha_6 New$$

$$\frac{dp}{d\ln(PFR)} = \alpha_2 \rightarrow \frac{dp}{\frac{d(PFR)}{PFR}} = \alpha_2 \rightarrow dp = \alpha_2 \frac{d(PFR)}{PFR} \rightarrow dp = \alpha_2 * 0.01$$

Table 4: Nonlinear regression results

Full Sample, 490 obs.		
Model Number	3	4
Log (PFR+1)	18.98832* (0.038)	25.44043* (0.002)
Number of bids (Nbid)	—	4.29033* (0.000)
Shipping cost (Scost)	—	-2.4069* (0.003)
Unlocked	—	51.39629* (0.001)
New	61.51969* (0.000)	59.7912* (0.000)
Constant	314.0868 (0.000)	194.4149 (0.000)
R²	0.0340	0.2217

P-Values are in parenthesis.

* Indicates significance at 5% level

Additional specifications

In this section I tried different type of regressions. I tried to find the relationship between the Positive Feedback rating and a winning bid. In table 5, the dependent variable Log (P+1) is natural logarithm of winning bid plus one and the independent variable Log (PFR+1) is a natural logarithm of the positive feedback rating plus one.

Column one represents the results for a nonlinear regression which contains the $\text{Log}(\text{PFR}+1)$. The coefficient estimate for Positive Feedback rating has the expected sign and it is statistically significant at the 5% level. Elasticity of bidding amount with respond to Positive Feedback Rating is 0.22. This implies if the Positive Feedback rating increases by 1%, the winning bid increases by 0.22%.

Table 5: Additional specification

Full Sample, 490 obs.			
Independent Variables	5	6	7
Log (PFR+1)	0.2210227* (0.039)	0.2921807* (0.003)	0.2562166* (0.002)
Number of bids (Nbid)	—	0.0527014* (0.000)	—
Log Number of bids Log(Nbid+1)	—	—	0.956154* (0.000)
Shipping cost (Scost)	—	-0.0175325 (0.063)	-0.018815* (0.021)
Unlocked	—	0.3078909 (0.093)	0.3348158* (0.034)
New	—	0.0828989 (0.658)	0.1621252 (0.316)
Constant	4.334644 (0.000)	2.945479 (0.000)	1.864924 (0.000)
R²	0.0087	0.1983	0.402

P-Values are in parenthesis.

* Indicates significance at 5% level

The second column introduces other (extra) variables that may affect the winning bid of the auction besides Positive Feedback rating. These variables include number of bids, shipping cost, the dummy variable Unlocked and the dummy variable (New). The coefficient estimated for Positive Feedback rating has the expected sign, and it is statistically significant at the 5% level. As the Positive Feedback rating increases by 1% the winning bid increases by 0.29%. The other variables; shipping cost, Unlocked, and New are not statistically significant at the 5% level.

In column three, I took the natural logarithm of the number of bids plus one $\text{Log}(\text{Nbid}+1)$. Other depend variables are entered in same form in column two. The coefficient estimate for a Positive Feedback rating has an expected sign and it is statistically significant at the 5% level. Elasticity of bidding amount with respond to Positive Feedback Rating is 0.25. This implies if the Positive Feedback rating increases by 1%, the winning bid increases by 0.25%.

Number of bids has a positive influence on the auction price. The coefficient on this variable is positive and it is significant. Shipping cost has negative effect on the winning price. The dummy variable (Unlocked) has a positive sign and it is statistically significant at about the 5% level. The dummy variable is New is not statistically significant at the 5% level. The R-squared is 0.4, only 40% of variability in the winning bid is reduced by knowing the independent variables. R-square is higher than the last two specifications.

Interestingly, the reputation of sellers in the new feedback system has an impact on bidders on eBay. In fact buyers do respond to the Positive Feedback ratings. However the impact of the seller's reputation on the auction's price is small.

In a previous study (March 2008), I used data from eBay about 129 online auctions of Windows XP home edition. The results show that the seller's reputation has no impact on auction price [Appendix-A]. There are two reasons that might have caused this result. First, the sample size of is 129 observations, which is considered to be small. It was very difficult to find enough observations for an identical item from different sellers over a short period of time for that item. The other reason is that until March 2008 the new system was not fully functional.

CHAPTER SIX

CONCLUSIONS

Online auctions depend on a feedback system in order to give users more information about their trading partners' reputation. This paper has estimated the effect of the seller's reputation on the buyer's willingness to bid. In this study, I used data from eBay about 490 online auctions of Apple iPhone 3G (one of the most popular items on eBay) in November 2008.

This paper is distinct from others in studying the effect of the seller's reputation after eBay changed the feedback system. According to eBay, buyers did not leave honest feedback about seller because they were afraid that sellers would retaliate against them. Thus eBay changed its feedback system from February to May 2008. In the new system, sellers are no longer allowed to leave negative or neutral feedback, and positive feedback percentage is calculated based on the last twelve months of feedback, members are able to earn one feedback point per week from the same trading partners.

The results indicate that eBay buyers react significantly to the percentage of positive feedback. In addition, the study on the effect of other variables on the auction price shows that the number of bids and shipping cost do have a measurable effect on the auction price.

eBay is a rich environment to study online auctions. With such a source of data, there is a lot of work that can be done in the future; for example besides using the positive feedback rating as a measure of reputation, one could use variables that represent the seller's reputation.

“Detailed Seller Rankings” (DSR) is another concept that eBay uses in the feedback system. Buyers are able to rate sellers on four areas: accuracy of the item description, communications, shipping time, and shipping and handling charges. In each one of these four dimensions, buyers can rate seller from 1-5, (eBay website). For future work DSR could be used to test how buyers react to sellers’ DSR.

Appendices

A-Results from previous study

Table A.1: Linear regression results

Full Sample, 129 obs.					
Model Number	1	2	3	4	5
Positive Feedback (Pfb)	.001866 (0.371)	—	.0005927 (0.749)	—	-.0027167 (0.313)
Negative Feedback (Nfb)	—	.4089057 (0.293)	—	.4723027 (0.167)	.8406628 (0.094)
Number of bid (Nbid)	—	—	1.278308 (0.000)	1.308225 (0.000)	1.370605 (0.000)
Time (t)	—	—	.2072516 (0.879)	.0597209 (0.965)	-.0200941 (0.988)
Shipping cost (Scost)	—	—	-1.208414 (0.031)	-1.218924 (0.028)	-1.210247 (0.030)
Starting Bid (Sbid)	—	—	.039904 (0.666)	.04543 (0.620)	.054865 (0.551)
New	21.55266 (0.000)	21.85065 (0.000)	23.90555 (0.000)	24.526 (0.000)	24.61739 (0.000)
Constant	60.33125 (0.000)	60.12614 (0.000)	46.83549 (0.000)	46.13775 (0.000)	45.73628 (0.000)
R²	0.1803	0.1823	0.3855	0.3946	0.3997

Note: the number between prentices is the P-value

Table A.2: Nonlinear regression results

Full Sample, 129 obs.					
Model Number	1	2	3	4	5
Log (Pos +1) (lpfb1)	1.742454 (0.094)	—	.7855486 (0.406)	—	.3008735 (0.814)
Log (Neg +1) (lnfb1)	—	2.367643 (0.325)	—	2.074669 (0.329)	1.620722 (0.573)
Number of bid (Nbid)	—	—	1.252331 (0.000)	1.291862 (0.000)	1.277261 (0.000)
Time (t)	—	—	.2007231 (0.882)	.1436664 (0.916)	.1535568 (0.910)
Shipping cost (Scost)	—	—	-1.244695 (0.027)	-1.225312 (0.028)	-1.23624 (0.028)
Starting Bid (Sbid)	—	—	.0412679 (0.654)	.0458068 (0.619)	.0448164 (0.628)
New	21.10151 (0.000)	21.4935 (0.000)	23.54639 (0.000)	23.92286 (0.000)	23.79846 (0.000)
Constant	53.94614 (0.000)	59.88423 (0.000)	44.55291 (0.000)	46.09286 (0.000)	45.37494 (0.000)
R²	0.1933	0.1814	0.3885	0.3898	0.3901

Note: the number between prentices is the P-value

B-Empirical data from eBay website

Table B.1 Empirical data

New	Unlocked	Feedback Score	Positive feedback rating	Winning bid	Number of bid	Shipping cost
1	0	66	100	560.00	30	0
0	1	759	98.9	449.44	19	0
1	1	54	97.1	485.00	14	0
1	1	148	100	495.00	4	0
0	1	85	100	481.00	38	25
0	1	648	98.8	485.00	10	0
1	1	1046	100	644.99	1	0
0	1	1	100	0.00	0	10
0	1	1	100	0.00	0	10
0	0	12	100	285.00	11	10
1	0	172	100	0.00	0	0
0	0	26	100	411.00	9	10
0	0	3367	99.5	0.00	18	0
1	1	161	100	570.00	20	0
1	1	3277	99.9	529.99	1	19.99
0	0	2	100	471.00	36	8.25
1	1	64	100	0.00	0	0
1	1	1460	98.8	0.00	0	19.95
0	1	395	97.7	495.00	42	0
0	1	86	97.1	515.87	54	25
1	1	3277	99.9	589.99	1	19.99
1	1	3277	99.9	0.00	0	19.99
1	1	3277	99.9	0.00	0	19.99

1	0	476	100	550.00	32	0
0	1	37	100	455.00	42	0
1	1	29	100	475.00	20	15
1	1	56	98.1	620.00	43	8.4
1	1	2149	98.8	480.00	14	101.99
0	0	32	100	415.00	47	0
0	1	574	98.5	410.00	1	0
0	0	3277	99.9	270.99	33	12.99
0	0	1	100	445.99	35	10
1	0	35	100	570.00	65	11
0	0	791	99.4	0.00	0	8
1	1	1634	100	540.00	47	0
1	0	1447	99.5	595.00	32	0
0	0	53	100	485.00	29	0
0	1	462	100	480.00	29	14.99
0	0	4645	99.3	306.00	13	5.75
1	0	35	100	0.00	0	12
1	0	112	100	540.00	21	17
1	1	66	100	530.00	26	12.95
0	0	4	100	425.00	8	0
0	0	4	100	415.00	6	20.55
1	1	121	100	0.00	0	13.6
1	1	224	97.5	521.00	3	10
1	1	140	93.8	590.00	31	15
1	1	1691	100	550.00	53	0
1	1	40	97.6	0.00	0	19
1	1	18	100	521.00	13	18.65
1	0	47	100	500.00	5	12
1	0	17	100	572.00	23	0
0	0	13	100	455.00	3	0
0	0	17	50	590.00	51	0

1	1	43	100	510.00	56	20
0	0	171	100	395.00	7	15.79
1	1	0	0	510.00	9	15
1	1	52	92.3	579.99	23	9.99
1	0	111	99	0.00	0	6.95
1	0	130	100	526.00	41	29.99
1	0	130	100	530.02	31	29.99
1	0	5	85.7	495.00	14	9.99
0	1	752	99.9	514.00	3	15
0	0	67	100	449.00	27	0
0	1	508	98.8	465.00	6	12.99
0	0	3	100	520.00	2	0
1	1	11338	99.6	531.90	27	8.1
0	1	45	100	425.00	19	10
0	0	0	0	403.00	34	5
1	1	40	97.6	599.00	1	19
1	0	23	96	600.01	3	0
0	1	73	91.7	520.00	2	0
0	0	0	0	425.01	17	0
0	1	5	100	405.00	28	0
1	1	76	100	566.00	13	0
0	0	0	0	485.00	45	0
1	1	3	100	552.23	35	0
0	0	117	100	338.00	33	10.1
0	0	2	100	440.00	56	0
1	0	16	100	475.00	53	16.98
1	0	16	100	510.00	28	16.98
1	0	16	100	465.00	35	16.98
0	0	28	100	490.00	21	11
0	0	31	94.7	700.00	2	20
1	0	16	100	485.00	32	16.98

1	0	16	100	483.00	17	16.98
0	1	51	100	500.00	34	26
0	0	5	100	490.00	26	0
1	1	10	100	561.00	3	0
0	1	68	100	484.90	39	25.57
0	1	8	100	465.00	42	10
0	0	102	100	550.00	49	0
0	0	51	100	470.00	14	0
0	1	510	100	376.00	12	0
0	1	13	100	480.00	34	0
1	1	3	100	540.00	9	10
0	0	107	100	0.00	0	0
0	1	16	100	445.00	9	9.99
1	1	310	99.1	0.00	0	19.99
0	0	361	99.6	549.00	7	0
0	1	16	100	500.00	21	9.99
1	1	23	100	535.00	5	0
0	1	17	100	485.00	23	10
1	1	759	98.9	503.23	26	10.29
1	1	3277	99.9	599.99	1	19.99
1	1	3277	99.9	0.00	0	21.99
1	1	3277	99.9	549.99	1	19.99
1	1	56	98.1	600.00	37	8.4
0	0	9	100	552.00	48	0
0	1	4	100	550.00	13	0
0	1	134	100	579.00	1	9
0	1	30	100	570.00	43	15
0	1	30	100	570.98	41	15
1	1	1466	99.8	510.00	48	0
0	1	331	99.2	449.99	1	0
1	1	363	95.8	599.00	1	29.99

1	1	363	95.8	599.00	1	29.99
0	0	63	100	443.00	30	12
1	1	3	100	785.00	22	9.99
0	1	455	100	490.79	31	0
0	0	18	95	465.00	24	0
0	1	76	97.6	560.00	50	20
1	1	81	100	600.00	26	23
0	0	35	100	700.00	56	12
0	0	3	100	0.00	0	12
0	1	663	100	495.00	19	13.85
0	0	70	100	540.00	19	0
0	0	116	98.9	570.05	14	5.95
0	1	76	97.6	560.00	50	20
0	1	10	100	471.00	46	4.95
0	0	6	100	0.00	0	12.95
1	1	833	100	620.00	1	0
1	1	833	100	620.00	1	0
1	1	28	100	550.00	31	10
0	0	0	0	0.00	0	9.99
0	0	0	0	0.00	0	9.99
0	0	0	0	0.00	0	9.99
0	1	170	97.8	0.00	30	0
0	1	0	0	0.00	0	0
1	0	26	100	551.00	36	0
1	1	52	92.3	475.00	29	9.99
0	0	238	99.2	425.00	3	17.34
1	1	81	100	600.00	26	23
1	1	51	66.7	540.00	29	0
1	1	1046	100	649.99	1	0
1	1	1046	100	0.00	0	0
1	1	1046	100	649.99	1	0

0	1	191	100	480.00	15	15
0	1	191	100	510.00	6	15
1	1	671	100	499.00	1	0
1	0	318	98.1	500.00	35	10
1	0	476	100	530.00	46	0
1	0	139	96.8	500.00	13	0
0	1	671	100	455.00	13	10
0	0	4	100	465.00	16	0
0	0	230	100	474.00	28	13
0	0	89	100	447.00	59	8
0	1	191	100	510.00	37	0
1	1	16	100	530.00	50	0
1	1	24	100	510.00	19	60.01
0	1	942	98.6	510.00	1	0
0	1	815	96.4	520.00	48	19.95
0	1	19	100	0.00	0	13.99
1	1	10	100	575.00	38	15
1	1	582	100	550.00	27	0
0	0	331	100	0.00	20	14.95
0	1	574	98.5	405.00	28	20
0	0	264	98.5	309.99	3	19.99
0	0	35	100	700.00	56	12
0	0	54	100	350.00	1	11.95
0	1	183	100	420.00	25	0
0	1	663	100	0.00	0	13.85
0	0	70	100	540.00	16	0
0	0	791	99.4	425.00	35	8
1	1	229	100	550.00	2	0
1	1	190	100	0.00	0	11.78
1	1	582	100	540.00	1	0
1	1	582	100	540.00	1	0

1	1	582	100	540.00	1	0
0	0	6	0	411.00	34	0
0	0	804	99.3	0.00	0	4.85
0	1	1	100	0.00	0	20
1	1	3	100	441.01	19	10
1	1	3	100	455.00	21	10
0	0	68	91.7	450.00	1	0
0	1	32	100	625.00	1	5
1	1	40	97.6	0.00	0	19
0	1	23	100	420.00	36	25
0	1	0		560.00	12	0
0	1	455	100	520.00	36	0
1	1	52	92.3	540.00	38	9.99
1	1	0	0	500.00	51	0
1	1	0	0	640.00	53	0
1	1	0	0	560.00	32	0
1	1	0	0	500.00	50	0
1	0	172	100	579.00	3	0
0	1	0	0	408.00	42	0
0	1	157	100	0.00	0	0
1	0	2575	99.5	442.00	32	11.99
0	0	2381	98.8	0.00	0	19.99
1	1	214	97.4	404.99	2	10
0	0	39	100	450.00	1	0
0	1	156	100	0.00	0	0
1	1	152	96.3	570.00	17	0
1	1	152	96.3	540.00	12	0
1	1	152	96.3	599.88	27	0
1	1	26	100	530.00	35	1.5
1	1	0	0	542.00	32	0
1	1	23	100	550.00	1	0

0	1	51	100	510.00	14	10
1	0	3	100	0.00	0	0
0	0	81	100	500.00	4	0
0	0	660	100	212.50	38	12
1	0	17	100	549.00	1	0
0	0	144	98.2	330.00	29	15
0	0	3	80	0.00	13	2.58
1	1	314	100	580.00	22	0
1	1	121	100	615.00	1	0
0	1	30	100	570.00	34	15
0	1	30	100	540.00	27	15
1	1	129	100	0.00	0	0
0	1	574	98.5	419.99	1	20
0	1	40	100	515.00	12	15
0	0	106	100	430.00	22	10
0	0	121	95.7	540.50	28	0
0	1	367	97.9	549.00	1	0
1	1	10	100	513.00	20	14.99
1	1	362	100	0.00	0	10
0	1	32	100	0.00	0	5
0	1	218	98.8	595.00	1	4.8
0	0	54	100	320.00	1	11.95
1	1	699	100	525.00	1	0
1	1	260	100	610.00	6	0
0	0	259	100	510.00	6	0
1	0	414	100	0.00	0	0
0	0	165	100	370.00	36	25
0	0	26	100	470.00	17	0
0	1	68	100	529.99	45	26.47
1	1	310	99.1	0.00	0	19.99
0	0	30	100	445.00	18	8

0	0	3	100	0.00	0	0
1	1	72	84.6	510.00	33	0
0	1	942	98.6	499.99	1	0
0	1	942	98.6	580.00	11	0
0	0	162	100	535.00	33	0
1	1	81	100	532.00	26	23
0	0	22	100	455.00	47	0
0	1	48	100	495.00	22	0
0	0	162	100	535.00	33	0
0	0	27	100	400.00	12	15
0	0	15	100	455.00	30	0
0	1	849	98.7	464.00	28	22.95
0	1	510	100	304.55	3	0
0	1	30	100	560.00	47	15
0	1	30	100	600.00	9	15
0	0	95	95.7	365.00	43	10
1	1	81	100	532.00	26	23
0	1	205	100	455.00	44	0
1	0	17	100	589.00	1	0
0	0	3734	99.1	0.00	0	9.6
0	0	10	100	525.00	56	4.95
1	0	20	100	548.98	5	0
1	1	190	100	0.00	0	11.78
0	0	390	99.1	0.00	0	0
0	0	13	100	400.00	1	0
1	1	0	0	470.00	50	0
0	1	274	100	450.00	8	10
1	0	420	100	520.00	52	0
0	0	22	100	455.00	47	0
1	0	1	66.7	375.00	28	7
1	0	31	100	580.00	41	12

1	1	20	100	550.00	1	15
0	0	150	100	530.00	20	0
0	0	70	100	480.00	52	0
1	0	11	100	0.00	0	9.99
1	1	152	96.3	540.00	19	0
1	1	364	100	470.00	1	0
1	1	111	100	500.00	1	12
0	0	2	100	530.00	7	0
0	1	27	100	499.99	2	15
1	1	713	99.3	0.00	0	20
1	1	196	99.5	0.00	0	0
0	1	150	100	435.00	44	15
1	0	3734	99.1	510.00	40	9.6
1	0	259	100	470.00	48	0
0	0	264	98.5	449.99	8	19.99
0	0	264	98.5	315.00	33	19.99
1	0	77	100	510.00	10	16.44
0	1	86	100	405.00	65	10
1	1	59	100	520.00	1	11.55
0	1	206	100	470.00	10	15
0	0	138	100	395.00	43	10
0	1	86	100	405.00	43	10
0	0	27	100	498.00	51	0
0	0	1146	99.7	415.00	23	7.99
0	0	39	100	609.99	6	0
0	0	390	99.1	0.00	0	0
0	1	211	100	475.00	27	5
0	1	48	100	495.00	22	0
1	0	77	100	530.00	23	16.44
0	0	290	99.1	510.00	28	0
1	1	129	100	649.99	1	0

0	1	94	100	398.00	19	10
1	0	345	97.7	540.00	39	0
0	1	0	0	400.98	8	0
0	0	75	97.5	424.99	1	0
0	1	175	95.5	585.00	51	0
1	0	6	100	455.00	20	10
0	0	1	100	0.00	0	15.17
0	1	9	100	445.00	18	0
1	1	40	97.6	0.00	0	19
0	0	28	100	450.00	13	11.5
0	1	27	100	499.99	3	15
0	0	574	98.5	429.99	1	0
0	0	574	98.5	419.99	1	15
0	0	574	98.5	429.99	1	0
0	0	574	98.5	429.99	1	0
0	1	94	100	455.00	21	0
0	0	52	96.4	435.00	1	15
0	0	51	100	200.00	1	15
1	0	139	96.8	530.00	18	0
0	0	45	100	450.00	25	10
0	0	78	100	249.99	1	0
0	1	370	100	314.99	4	15
0	1	379	100	560.00	19	0
0	1	10	100	520.00	1	0
1	1	202	100	500.00	10	0
1	1	379	100	550.00	28	0
1	1	379	100	540.00	25	0
1	1	379	100	560.00	50	0
1	1	379	100	540.00	31	0
0	0	34	100	405.00	35	10
0	0	390	99.1	0.00	0	0

0	1	30	100	550.00	36	15
0	0	100	100	500.00	1	15
1	1	56	98.1	570.00	34	8.4
0	1	149	100	450.00	6	0
0	0	469	100	449.00	1	0
1	1	56	98.1	565.00	53	8.4
1	1	88	100	599.00	7	11.99
0	0	3	100	560.00	14	9
0	1	210	100	330.00	1	23
0	0	88	100	415.00	49	17.65
0	0	138	100	366.00	33	10
0	1	87	100	455.00	27	0
0	0	108	100	406.00	36	15
1	1	335	100	549.00	1	0
0	0	211	100	415.00	47	5
0	1	83	100	610.00	24	0
0	0	2	100	400.00	23	10
0	0	455	100	385.00	1	0
0	0	123	100	519.99	2	0
0	0	195	100	405.00	26	10
0	1	942	98.6	510.00	1	0
0	0	140	100	430.00	38	0
1	1	88	100	565.00	7	11.99
1	0	111	99	0.00	0	6.95
0	0	574	98.5	429.99	1	0
0	0	15	100	248.50	31	10
0	0	64	100	335.00	41	0
0	0	0	0	0.00	0	0
0	0	79	100	275.00	1	0
1	1	105	100	600.00	27	0
0	0	390	99.1	0.00	0	9.95

0	0	1	100	355.90	7	13
0	0	64	100	212.55	15	0
0	0	23	100	0.00	0	0
0	0	16	100	412.50	13	15
1	1	82	100	555.00	41	0
1	1	1460	98.8	0.00	0	0
0	0	5	100	429.50	42	5
0	1	48	100	560.00	25	0
0	1	153	100	455.00	37	13.99
0	0	29	100	394.00	8	15
1	0	14	100	520.00	47	12
0	1	48	100	560.00	25	0
0	0	153	100	455.00	37	13.99
1	1	1	100	510.00	58	0
0	0	19	100	500.00	22	0
0	0	7	100	425.00	38	10
1	0	11	100	491.00	43	10
0	1	196	99.5	0.00	0	0
0	1	455	100	576.00	55	0
1	1	363	95.8	0.00	0	29.99
1	1	0	0	490.00	13	10
1	0	58	92.3	550.00	2	10
1	0	58	92.3	550.00	6	10
0	1	409	100	485.00	17	21
0	1	13	100	500.00	20	0
0	0	52	96.4	450.00	1	0
0	0	34	100	550.00	1	4.8
0	0	2381	98.8	501.00	36	19.99
0	0	34	100	0.00	0	4.8
0	1	455	100	556.00	31	0
1	1	110	96.6	0.00	0	0

1	0	130	100	475.00	9	10
0	1	10	100	530.00	38	18
0	0	3470	99.8	425.00	1	0
0	1	849	98.7	410.00	28	22.95
0	0	0	0	0.00	0	29.99
0	1	179	100	465.00	27	0
0	0	87	98.1	205.50	18	9.95
1	1	752	100	510.00	6	15.85
1	0	515	100	550.00	16	22.5
0	1	307	100	435.00	49	4.8
1	1	297	98.4	561.00	46	0
1	0	245	100	550.00	32	9
1	1	121	100	619.00	1	0
0	1	72	100	550.00	1	0
0	1	151	100	629.99	11	0
0	0	29	100	394.00	8	15
0	0	13	100	0.00	0	0
0	0	390	99.1	0.00	0	9.95
0	0	3277	99.9	271.25	36	12.99
1	1	72	84.6	535.00	41	0
0	0	17	100	530.00	16	0
1	1	14	100	550.00	1	25
0	1	130	97.6	420.00	17	5
1	1	52	92.3	490.01	21	9.99
0	0	150	100	475.00	33	0
0	1	71	100	470.00	41	0
0	1	28	88.9	455.00	28	15
0	1	33	100	485.00	2	0
0	0	123	100	405.00	14	0
0	0	53	100	453.00	28	0
0	0	53	100	467.00	31	0

0	0	5	100	550.00	1	0
0	1	16	100	560.00	21	0
0	0	31	94.7	445.00	26	20
0	1	16	100	478.00	49	0
0	1	173	100	259.99	2	29.99
0	0	0	50	446.00	51	0
0	1	21	100	559.00	15	0
0	1	62	95.2	530.00	6	0
1	0	112	100	510.00	16	9.5
1	0	112	100	510.00	18	9.5
0	1	90	100	395.00	1	10
0	0	24	100	410.03	25	0
1	1	10	100	490.01	24	14.99
0	0	134	100	400.00	1	12
0	1	19	100	430.00	58	0
0	1	942	98.6	510.00	1	0
0	1	942	98.6	499.99	1	0
0	0	830	98.3	499.00	1	8.5
1	1	52	92.3	0.00	0	9.99
1	1	14	100	599.00	1	0
1	1	161	100	555.00	35	0
1	1	362	100	530.00	5	10
0	0	202	98.5	470.00	45	0
0	0	202	98.5	420.00	33	0
0	0	2381	98.8	380.00	24	19.99
1	0	18	100	560.00	38	0
0	0	9	100	415.00	28	15
1	0	1494	100	540.00	28	0
0	1	83	100	449.99	1	0
0	1	2	100	405.00	48	12.99
0	1	47	100	500.00	1	0

0	1	849	98.7	424.00	23	22.95
0	1	4	100	457.01	63	0
0	1	322	98.9	430.00	28	14.99
0	0	2918	99.8	363.00	16	12.2
0	0	49	100	0.00	0	15
1	0	67	100	615.00	13	0
1	1	1046	100	649.99	1	0
0	0	151	100	450.00	27	0
1	0	29	100	460.00	44	12.99
0	0	311	98.8	435.00	34	0
0	0	390	99.1	449.95	1	0
1	0	1494	100	530.00	26	0
0	0	19	100	425.05	9	0
0	1	29	100	470.00	29	0
1	1	66	100	520.00	16	12.95
0	0	117	100	400.00	5	13
0	1	223	100	480.00	23	5
1	0	188	100	549.99	1	0
0	1	71	100	0.00	0	0
0	1	71	100	425.00	25	0
0	0	14	100	580.00	40	0
0	1	66	100	520.01	32	20
0	1	102	100	500.00	29	0
1	1	229	100	569.00	1	0
0	1	21	100	0.00	0	5
0	0	4	100	440.00	35	0
1	1	13	100	599.00	1	10
0	0	14	100	0.00	0	15.8
0	1	2	100	440.00	11	0
1	1	229	100	574.00	16	0
1	1	13	100	460.00	1	0

0	0	625	100	380.00	8	10
1	1	84	100	530.00	29	0

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