























































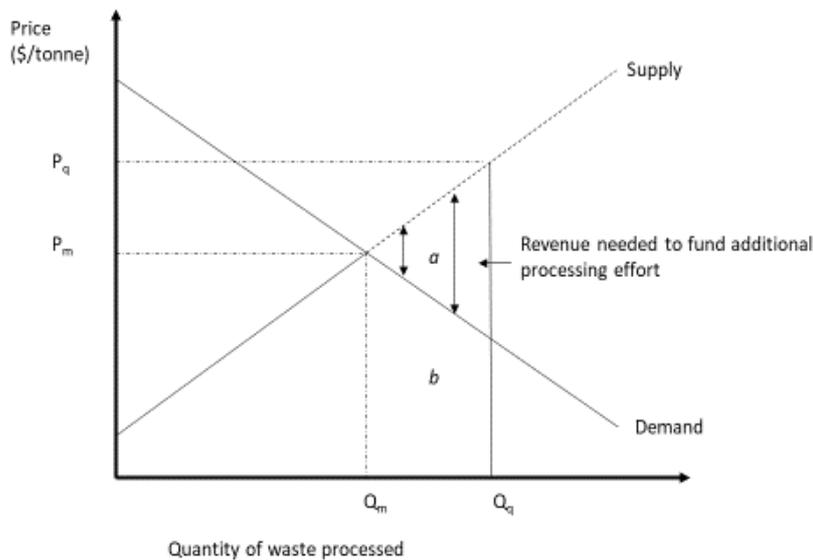






the supply schedule is expanded by asking bidders to nominate the amount of additional effort they would be willing to supply at different prices. Competition forces bidders to seek compensation only for the difference between the cost of supplying additional effort (the supply curve) and returns they would earn from selling the waste material processed (the demand curve). Two example bids are illustrated by the vertical arrows in Figure 3. The cost of this process will be the area *a* plus a margin<sup>56</sup>. A well-designed auction will minimise the cost of increasing waste processing effort in the economy because an auction.

**Figure 3: The cost of increasing waste processing effort**



**Table 4** summarises the key features of the auction needed for this purpose. An important consideration in developing this auction is that bidders (waste processing businesses) have independent private values (IPV) rather than common values. This means that the bid placed by one participant does not depend on the bid placed by another. Where IPVs exist, auction theory indicates that any auction format will result in the same revenue outcome<sup>57</sup>. This means that a relatively simple, *sealed bid, pay-as-bid* auction can be used. In this type of auction, bidders just submit their bids as they would in a tender. Rather than submit one proposal, each bidder would be allowed to submit a *bid schedule* in which he/she indicates the quantity of additional waste processing effort offered over a range of prices. This flexibility is recommended to reflect the possibility of

<sup>56</sup> Referred to as an “information rent”.

<sup>57</sup> The revenue equivalence theorem.





