भारतीय प्रौद्योगिकी संस्थान मुंबई
Indian Institute of Technology Bombay

CS 6001: Game Theory and Algorithmic Mechanism Design

Week 4

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Slide preparation acknowledgments: Onkar Borade and Rounak Dalmia

ज्ञानम् परमम् ध्येयम्
Knowledge is the supreme goal

Contents

Recap

- MSNE → weakest notion of equilibrium so far

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- Existence is guaranteed for finite games

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- MSNE → weakest notion of equilibrium so far
- Existence is guaranteed for finite games
- Finding MSNE is computationally expensive

Contents

Correlated Strategy and Equilibrium

Alternative approach - entry of a **mediating** agent/device

Why do we need such an agent?

- Alternative explanation of player rationality

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- Computational tractability

Correlated Strategy and Equilibrium

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		Wait	Go
Player 1	Wait	0, 0	1, 2
	Go	2, 1	−10, −10

Busy cross road game

Correlated Strategy and Equilibrium

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Busy cross road game

Nash solutions for the above are

- One waits and the other goes, or
- Large probability of waiting

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- The **trusted third party** is called the **mediator**
- **Role**:
  - randomize over the **strategy profiles** (and not individual strategies)
  - and suggest the corresponding strategies to the players
- If the strategies are **enforceable** then it is an equilibrium (**correlated**)

Correlated Strategy and Equilibrium (contd.)

Definition (Correlated Strategy)

A **correlated strategy** is a mapping $\pi : S_1 \times S_2 \times \cdots \times S_n \to [0, 1]$ s.t. $\sum_{s \in S} \pi(s) = 1$.

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Example: $\pi(W,W) = 0$, $\pi(W,G) = \pi(G,W) = \frac{1}{2}$, and $\pi(G,G) = 0$

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Answer

A *correlated strategy* is a **correlated equilibrium** when no player *gains* by deviating from the suggested strategy while others follow the suggested strategies

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The correlated strategy π *is a common knowledge*

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Discussions:

- The mediator suggests the actions after running its randomization device π
- Every agent's best response is to follow it if others are also following it

Examples

		Friend 2	
		F	C
Friend 1	F	2, 1	0, 0
	C	0, 0	1, 2

Football or Cricket Game

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MSNE: $\left(\left(\frac{2}{3}, \frac{1}{3}\right), \left(\frac{1}{3}, \frac{2}{3}\right)\right)$

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$\pi(W, G) = \pi(W, W) = \pi(G, W) = \frac{1}{3}$ a CE?

Question

Are there other CEs of this game?

Contents

Computing Correlated Equilibrium

CE finding is to solve a set of linear equations

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Two set of constraints

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Total number of inequalities = $O(n \cdot m^2)$, assuming $|S_i| = m$, $\forall i \in N$

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m^n inequalities

Computing Correlated Equilibrium (contd.)

- The inequalities together represent a **feasibility linear program** that is easier to compute than MSNE

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[1] take log of both quantities to understand this point

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- **MSNE** : total number of support profiles = $O(2^{mn})$
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- Moreover, this can also be used to optimize some objective function, e.g., maximize the sum of utilities of the players

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Comparison with the previous equilibrium notions

Theorem

For every ***MSNE*** σ^**, there exists a* ***CE*** π^*

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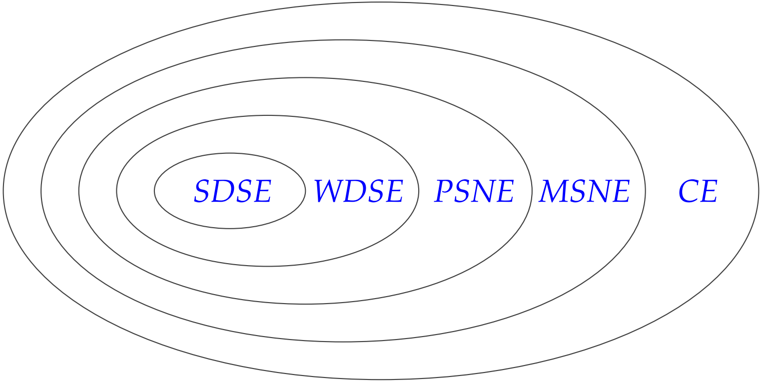
Venn diagram of games having equilibrium



SDSE WDSE PSNE MSNE CE

Familiar Game: Neighboring Kingdom’s Dilemma

		Player 2	
		Agri	War
Player 1	Agri	5, 5	0, 6
	War	6, 0	1, 1

Question

What is the CE of this game?

Summary so far

- Normal form games

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- Rationality, intelligence, common knowledge

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- Trusted mediator - correlated strategies - equilibrium

Richer representation of games

- More appropriate for multi-stage games, e.g. **chess**

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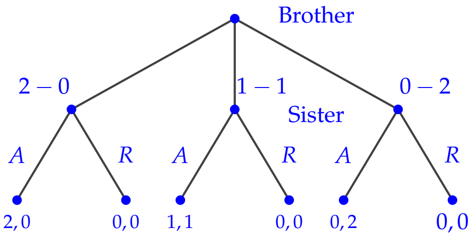
- Players interact in a sequence - the sequence of actions is the history of the game

Contents

Perfect Information Extensive Form Games (PIEFG)

- Brother-sister Chocolate Division
- **Disagreement** → both chocolates taken away

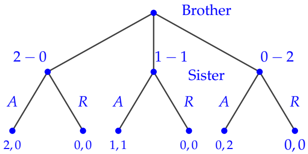


Perfect Information Extensive Form Games (PIEFG)

Formal capture

$$\text{PIEFG } \langle N, A, H, X, P, (u_i)_{i \in N} \rangle$$

- N: a set of players

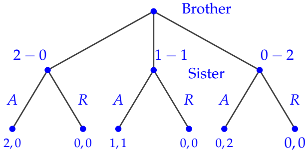


Perfect Information Extensive Form Games (PIEFG)

Formal capture

PIEFG $\langle N, A, H, X, P, (u_i)_{i \in N} \rangle$

- N: a set of players
- A: a set of all possible actions (of all players)



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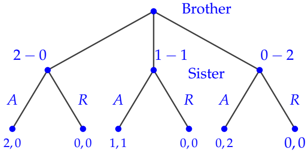

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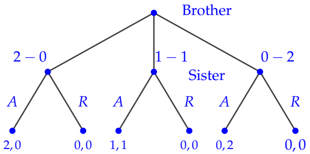

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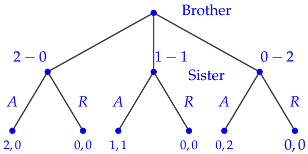

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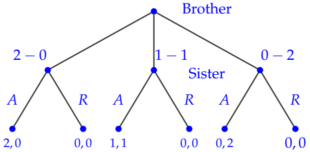

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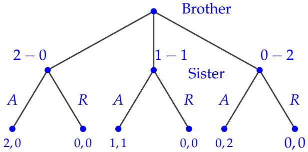

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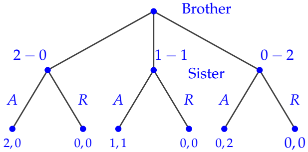

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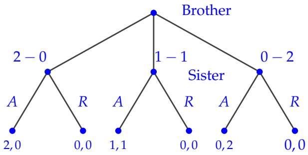

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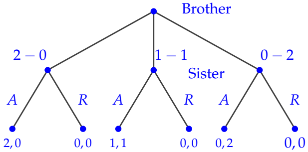

Perfect Information Extensive Form Games (PIEFG)

The **strategy** of a player in an EFG is a tuple of actions at every history where the player plays, i.e.,

$$S_i = \times_{\{h \in H : P(h) = i\}} X(h)$$

Remember:

- Strategy is a **complete contingency plan** of the player

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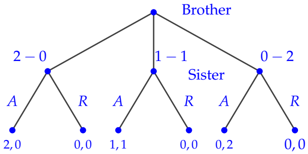
Remember:

- Strategy is a **complete contingency plan** of the player
- It enumerates potential actions a player can take at every node where she can play, even though some combination of actions may never be executed together

Perfect Information Extensive Form Games (PIEFG)

- $N = \{1, 2\}$ – Brother and Sister respectively



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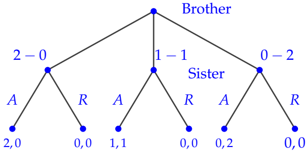

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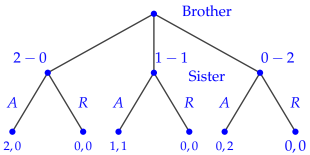

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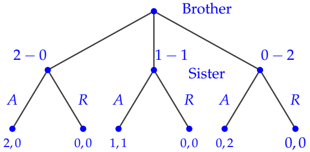

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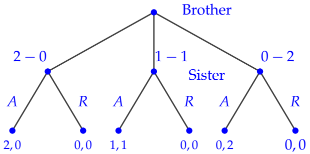

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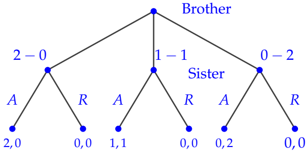

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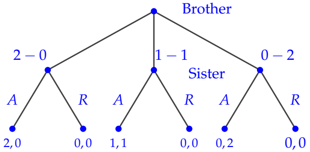
- $X(2-0) = X(1-1) = X(0-2) = \{A, R\}$
- $P(\emptyset) = 1, P(2-0) = P(1-1) = P(0-2) = 2$



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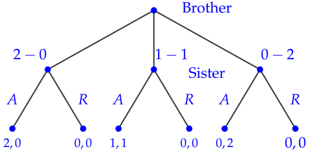

- $u_1(2-0, A) = 2, u_1(1-1, A) = 1, u_2(1-1, A) = 1, u_2(0-2, A) = 2$ [utilities are zero at the other terminal histories]

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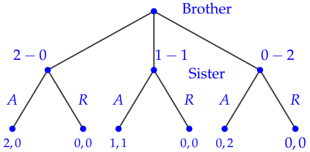
- $S_1 = \{2-0, 1-1, 0-2\}$



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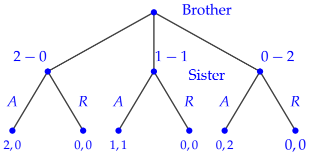

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- $S_1 = \{2-0, 1-1, 0-2\}$
- $S_2 = \{A, R\} \times \{A, R\} \times \{A, R\} = \{AAA, AAR, ARA, ARR, RAA, RAR, RRA, RRR\}$

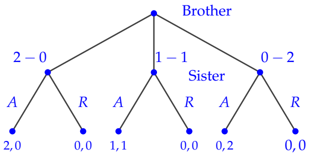
Transforming PIEFG into NFG

Once we have the S_1 and S_2, the game can be represented as an NFG

		Sister							
		AAA	AAR	ARA	ARR	RAA	RAR	RRA	RRR
Brother	2-0	2, 0	2, 0	2, 0	2, 0	0, 0	0, 0	0, 0	0, 0
	1-1	1, 1	1, 1	0, 0	0, 0	1, 1	1, 1	0, 0	0, 0
	0-2	0, 2	0, 0	0, 2	0, 0	0, 2	0, 0	0, 2	0, 0

Transforming PIEFG into NFG

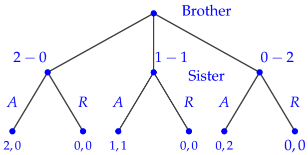
		Sister							
		AAA	AAR	ARA	ARR	RAA	RAR	RRA	RRR
Brother	2-0	2, 0	2, 0	2, 0	2, 0	0, 0	0, 0	0, 0	0, 0
	1-1	1, 1	1, 1	0, 0	0, 0	1, 1	1, 1	0, 0	0, 0
	0-2	0, 2	0, 0	0, 2	0, 0	0, 2	0, 0	0, 2	0, 0



- Nash equilibrium like $(2-0, RRA)$ not quite reasonable, e.g., why R at $1-1$?

Transforming PIEFG into NFG

		Sister							
		AAA	AAR	ARA	ARR	RAA	RAR	RRA	RRR
Brother	2-0	$2,0$	$2,0$	$2,0$	$2,0$	$0,0$	$0,0$	$0,0$	$0,0$
	1-1	$1,1$	$1,1$	$0,0$	$0,0$	$1,1$	$1,1$	$0,0$	$0,0$
	0-2	$0,2$	$0,0$	$0,2$	$0,0$	$0,2$	$0,0$	$0,2$	$0,0$



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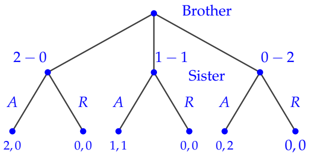
- Similarly, $(2-0, RRR)$ is not a **credible threat**, i.e., if the game ever reaches the history $1-1$, Player 2's rational choice is not R

Transforming PIEFG into NFG

		Sister							
		AAA	AAR	ARA	ARR	RAA	RAR	RRA	RRR
Brother	2-0	2,0	2,0	2,0	2,0	0,0	0,0	0,0	0,0
	1-1	1,1	1,1	0,0	0,0	1,1	1,1	0,0	0,0
	0-2	0,2	0,0	0,2	0,0	0,2	0,0	0,2	0,0



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- Hence this equilibrium concept (PSNE) is not good enough for predicting outcomes in PIEFGs

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		AAA	AAR	ARA	ARR	RAA	RAR	RRA	RRR
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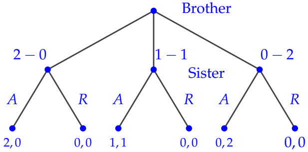

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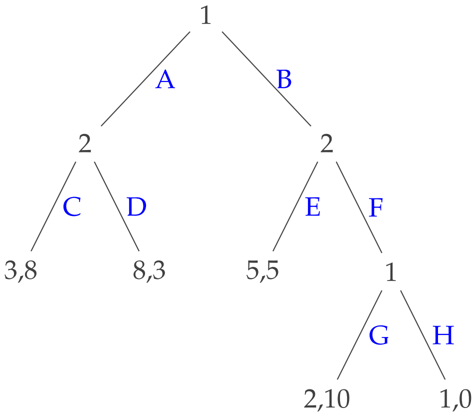
- Hence this equilibrium concept (PSNE) is not good enough for predicting outcomes in PIEFGs
- Also the representation of a sequential game as NFG has huge redundancy – EFG is succinct

Contents

PIEFG to NFG

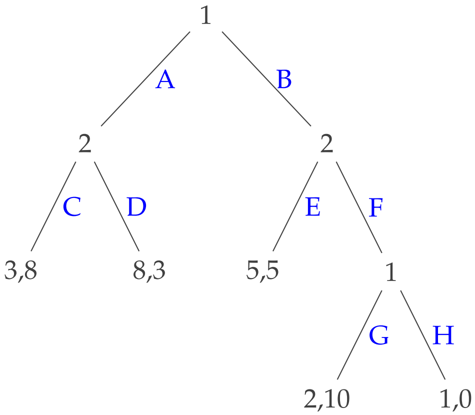
Equilibrium guarantees are weak for PIEFG in an NFG representation



- Strategies of Player 1 : AG, AH, BG, BH

PIEFG to NFG

Equilibrium guarantees are weak for PIEFG in an NFG representation



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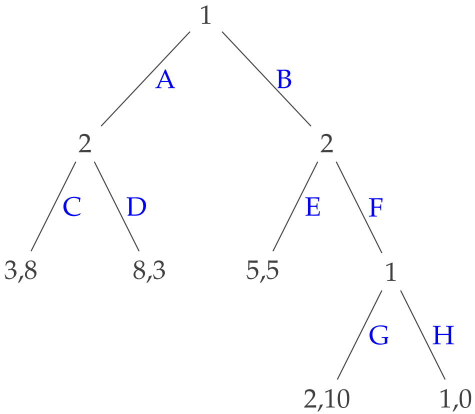

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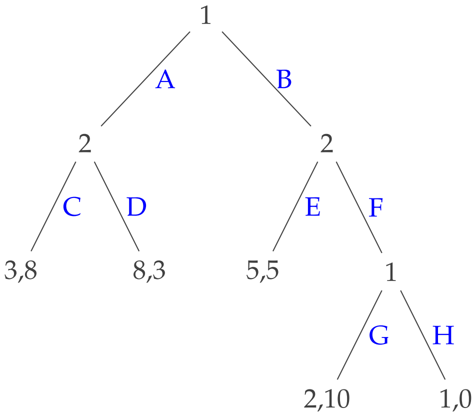
PIEFG to NFG

Equilibrium guarantees are weak for PIEFG in an NFG representation



- Strategies of Player 1 : AG, AH, BG, BH
- Strategies of Player 2 : CE, CF, DE, DF
- PSNEs?
- (AG, CF), (AH, CF), (BH, CE) – is there any non-credible threat

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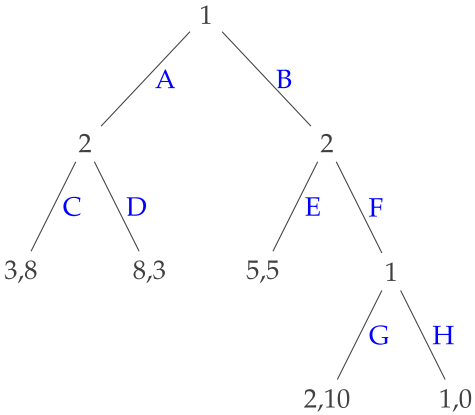

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- PSNEs?
- (AG, CF), (AH, CF), (BH, CE) – is there any non-credible threat
- Better notion of rational outcome will be that which considers a history and ensures utility maximization

Subgame and subgame perfection

Subgame: Game rooted at an intermediate vertex

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Definition (Subgame)

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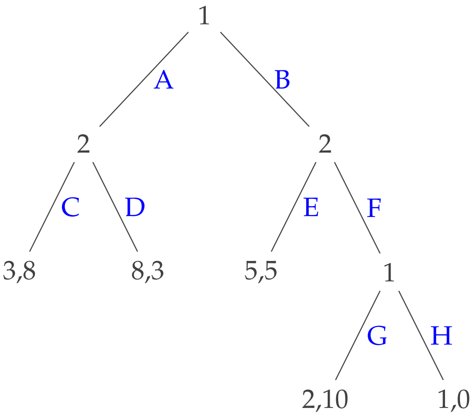
Subgame perfection: Best response at every subgame

Definition (Subgame Perfect Nash Equilibrium (SPNE))

A subgame perfect Nash Equilibrium (SPNE) of a PIEFG G is a strategy profile $s \in S$ s.t. for every subgame G' of G, the restriction of s to G' is a PSNE of G'

Example



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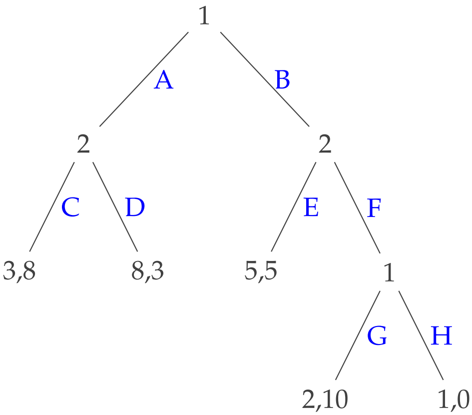

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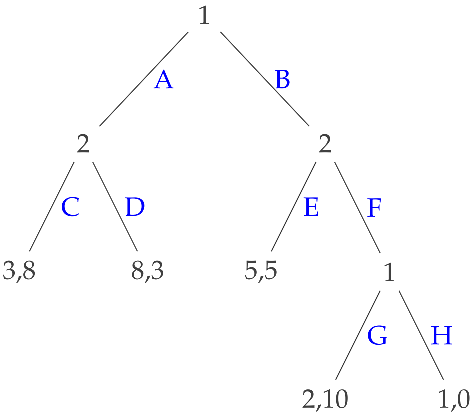

- PSNEs : (AH, CF), (BH, CE), (AG, CF)
- Are they all SPNEs?
- How to compute them?

Subgame Perfection

Algorithm 1: Backward Induction

```
Function $BACK\_IND(history\ h)$:
    if $h \in Z$ then
        return $u(h), \emptyset$
    $best\_util_{P(h)} \longleftarrow -\infty$
    foreach $a \in X(h)$ do
        $util\_at\_child_{P(h)} \longleftarrow BACK\_IND((h, a))$
        if $util\_at\_child_{P(h)} > best\_util_{P(h)}$ then
            $best\_util_{P(h)} \longleftarrow util\_at\_child_{P(h)}, best\_action_{P(h)} \longleftarrow a$
    return $best\_util_{P(h)}, best\_action_{P(h)}$
```

Contents

Limitations of SPNE

The idea of subgame perfection inherently is based on backward induction

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Disdvantages and criticisms:

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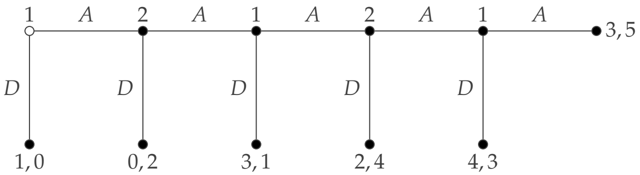
- Cognitive limit of real players may prohibit playing an SPNE

Centipede game



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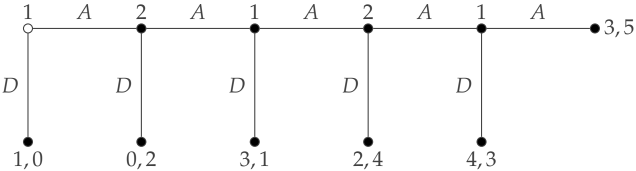

Question

What is/are the SPNE(s) of this game?

Question

What is the problem with that prediction ?

Arguments

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- Works in explaining outcomes in certain games, but there is another way to extend this idea
- Using the idea of **belief** of the players

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