1 Homework sheet 4 - Evolutionary games, games with incomplete information and stochastic games

1. Consider the pairwise contest games with the following associated two player games:

$$\begin{pmatrix}(2,2) & (4,5)\\(5,4) & (1,1)\end{pmatrix}$$

Solution

Using the Equality of payoffs theorem we obtain the Nash equilibria:

$$\{((1,0),(0,1)),((0,1),(1,0)),((1/2,1/2),(1/2,1/2))\}$$

The two pure Nash equilibria are ESS (because of the first condition of the theorem relating an evolutionary stable strategy to the Nash equilibrium of the associated game).

$$u((1/2,1/2),\sigma)=3$$

and for $\sigma=(\omega,1-\omega)$:

$$u(\sigma,\sigma)=(2\omega^2+9(1-\omega)\omega+(1-\omega)^2)$$

thus (after some algebraic manipulation):

$$u((1/2,1/2),\sigma)-u(\sigma,\sigma)=(2\omega-1)(3\omega-2)$$

which is negative for $1/2<\omega<2/3$ so this mixed strategy is not an ESS.

$$\begin{pmatrix}(1,1) & (0,0)\\(0,0) & (1,1)\end{pmatrix}$$

Solution

Using the Equality of payoffs theorem we obtain the Nash equilibria:

$$\{((1,0),(1,0)),((0,1),(0,1)),((1/2,1/2),(1/2,1/2))\}$$

The two pure Nash equilibria are ESS (because of the first condition of the theorem relating an evolutionary stable strategy to the Nash equilibrium of the associated game).

$$u((1/2,1/2),\sigma) = 1/2$$

As before:

$$u((1/2,1/2),\sigma) - u(\sigma,\sigma) = -1/2(2\omega-1)^2$$

so not an ESS.

$$\begin{pmatrix} (\alpha,\alpha) & (1,\beta) \\ (\beta,1) & (0,0) \end{pmatrix}$$

(Assume $\alpha, \beta > 0$ and $\alpha \neq \beta$)

Solution

If $\beta < \alpha$ then we have a single pure Nash Equilibria $((1,0),(1,0))$ which is also an ESS.

If $\beta > \alpha$ the Nash Equilbria are $\{((1,0),(1,0)),((0,1),(0,1)),((1/(\beta-\alpha+1),(\beta-\alpha)/(\beta-\alpha+1)),(1$
The pure are ESS.

$$u(\sigma^*,\sigma) = \frac{beta}{\beta-\alpha+1}$$

and

$$u(\sigma,\sigma) = -\alpha\omega^2 - \omega(1-\omega)(1+\beta)$$

thus (after some algebra):

$$u(\sigma^*,\sigma) - u(\sigma,\sigma) > 0 \Leftrightarrow \beta - (\beta-\alpha+1)(\omega^2(\alpha-\beta-1)+\omega(1+\beta)) > 0$$

However the quadratic in ω has roots: $\left\{\frac{\beta}{\beta-\alpha+1}, \frac{1}{\beta-\alpha+1}\right\}$ so $\exists\ \omega$ for which the difference is negative and thus this mixed strategy is not an ESS.

Identify all evolutionary stable strategies.

2. Consider the following game:

> In a mathematics department, researchers can choose to use one of two systems for typesetting their research papers: LaTeX or Word. We will refer to these two strategies as L and W respectively. A user of W receives a basic utility of 1 and as L is more widely used by mathematicians out of the department and is in general considered to be a better system a user of L gets a basic utility of $\alpha > 1$. Members of the mathematics department often collaborate and as such it is beneficial for the researchers to use the same typesetting system. If we let μ represent the proportion of users of L we let:

$$u(L,\chi) = \alpha + 2\mu$$
$$u(W,\chi) = 1 + 2(1-\mu)$$

What are the evolutionary stable strategies?

Solutions

Using the theorem for necessity of stability we have the following candidate ESS:

1. σ_L: everyone uses L, thus $\mu = 1$ (we have $u(L,\chi) > u(W,\chi)$.
2. σ_W: everyone uses W, thus $\mu = 0$ (we have $u(L,\chi) < u(W,\chi)$.
3. σ_m: some use L and some use W, by the theorem we have $u(L,\chi) = u(W,\chi)$ which implies $\alpha + 2\mu = 1 + 2(1-\mu)$ giving $\mu = \frac{3-\alpha}{4}$.

Now we consider the post entry population $\chi_\epsilon = (1-\epsilon)\sigma^* + \epsilon\sigma$ (where σ^* is the base strategy and σ is the entry population). We denote $\sigma = (\mu, 1-\mu)$ and $\sigma^* = (\mu^*, 1-\mu^*)$ and $\delta = u(\sigma^*, \chi_\epsilon) - u(\sigma, \chi_\epsilon)$. We have:

$$\delta = \mu^* u(L,\chi_\epsilon) + (1-\mu^*)u(W,\chi_\epsilon)) - \mu u(L,\chi_\epsilon) + (1-\mu)u(W,\chi_\epsilon)) = (\mu^* - \mu)(u(L,\chi_\epsilon) - u(W,\chi_\epsilon))$$

which gives:

$$\delta = (\mu^* - \mu)(\alpha - 3 + 4((1-\epsilon)\mu^* + \epsilon\mu)) = (\mu^* - \mu)(4\mu^* + \alpha - 3 + 4\epsilon(\mu - \mu^*))$$

We now consider each potential ESS in turn, if $\delta > 0$ for all $\epsilon < \bar{\epsilon}$ for some $\bar{\epsilon}$ then we have an ESS (this is by definition):

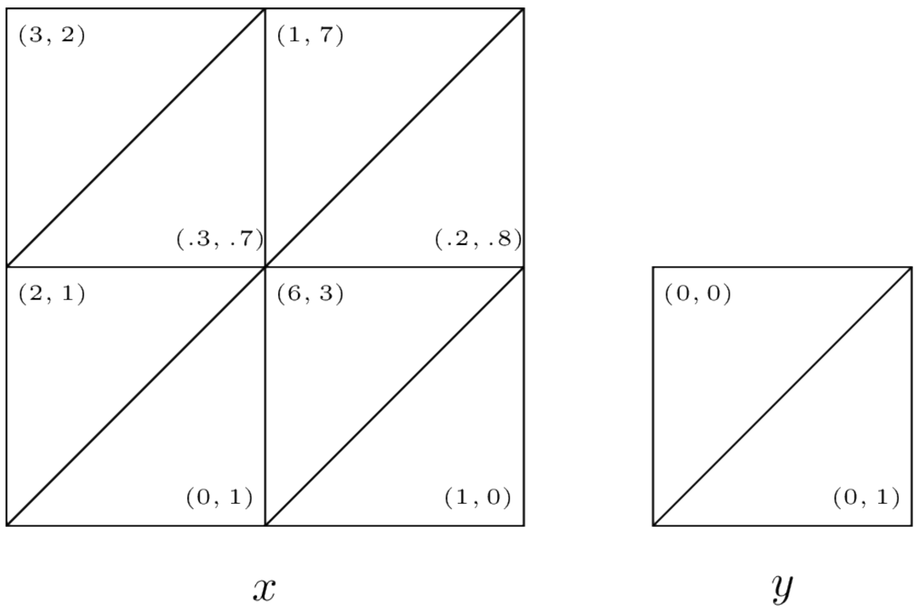
1. $\mu^* = 1$: $\delta = (1-\mu)(1+\alpha+4\epsilon(\mu-1)) > (1-\mu)(1+\alpha-4\epsilon) > 0$ for all $\mu \neq 1$ and $\epsilon < \bar{\epsilon} = \frac{1+\alpha}{4}$. Thus σ_L is an ESS.
2. $\mu^* = 0$: $\delta = -\mu(\alpha - 3 + 4\epsilon\mu)$. If $\alpha \geq 3$ then $\delta \leq 0$ for all values of μ, ϵ, thus if L is 3 times better than W σ_W is not an ESS. If $\alpha < 3$ $\delta > 0 \Leftrightarrow \alpha - 3 + 4\epsilon\mu < 0 \Rightarrow \alpha - 3 + 4\epsilon\mu < \alpha - 3 + 4\epsilon < 0$ for all $\mu \neq 0$ $\epsilon < \bar{\epsilon} = \frac{3-\alpha}{4}$. Thus σ_W is an ESS for $\alpha < 3$.
3. $\mu^* = \frac{3-\alpha}{4}$: $\delta = -4\epsilon\left(\frac{3-\alpha}{4} - \mu\right)^2 < 0$ for all $\mu \neq \frac{3-\alpha}{4}$ and for all $\epsilon > 0$ so σ_m is not an ESS.

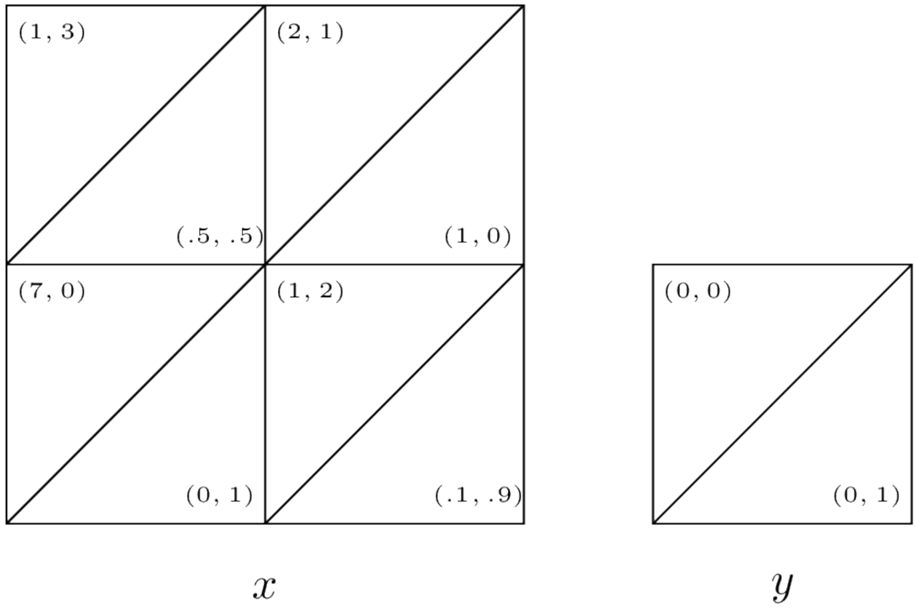
3. Consider the simple game with two players: an insurer and a driver. The insurer sets a premium price $K \geq 0$, once that is done the driver can choose to buy insurance or not. It is assumed that the driver will have an accident with probability p, if the driver has an accident the financial cost is A. Represent this game in normal form and obtain the Nash equilibrium for the game as a function of the parameters. Modify your analysis assuming that the utility function to the driver is given by $u(x) = x^{1/\alpha}$ and the utility to the insurer is given by $u(x) = x^{1/\beta}$.

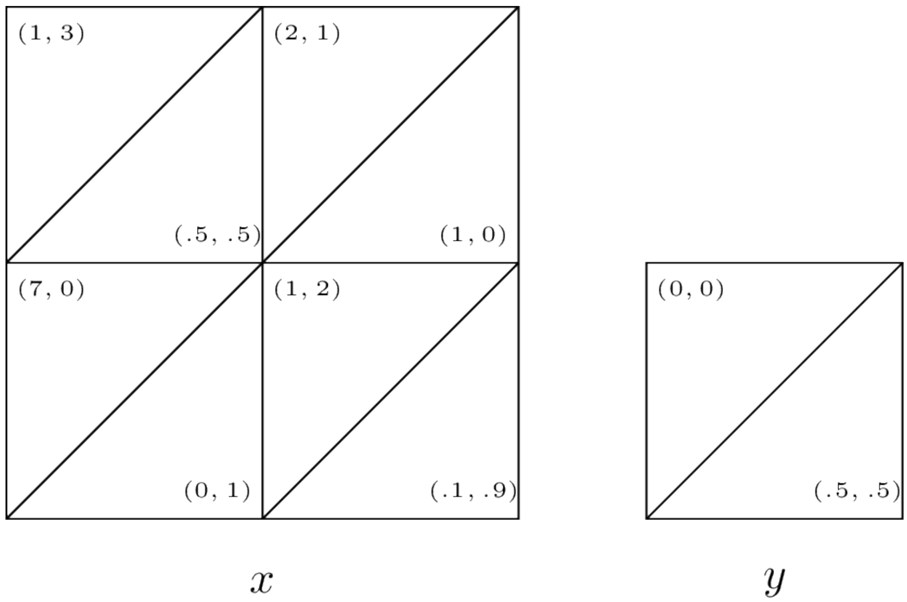
4. Repeat the analysis of the principal agent game assuming that p is the probability of the project being successful in case of a high level of effort by the employee.

i. What are the expected utilities to the employer and the employee?
ii. Obtain a condition for which the employer should offer a bonus.

5. Obtain the Markov Nash equilibrium for the following games assuming $\delta = 1/4$.







6. Construct a two state stochastic game corresponding to an infinitely repeated game with the following stage game:

$$\begin{pmatrix} (2,2) & (0,3) \\ (3,0) & (1,1) \end{pmatrix}$$

Show that the strategy s_g ("player the first strategy until either player plays the second strategy") can be represented as a Markov strategy. For what values of δ is both players playing this strategy a Markov Nash equilibrium?