Game Theory

CO 456

Martin Pei

LaTeXed by *Sibelius Peng*

Preface

Disclaimer Much of the information on this set of notes is transcribed directly/indirectly from the lectures of CO 456 during Fall 2020 as well as other related resources. I do not make any warranties about the completeness, reliability and accuracy of this set of notes. Use at your own risk.

For any questions, send me an email via `https://notes.sibeliusp.com/contact/`.

You can find my notes for other courses on `https://notes.sibeliusp.com/`.

Sibelius Peng

Contents

1

Combinatorial games

1.1 Impartial games

Reference

- http://web.mit.edu/sp.268/www/nim.pdf
- https://ivv5hpp.uni-muenster.de/u/baysm/teaching/3u03/notes/14-games.pdf

Example: Game of Nim

We are given a collection of piles of chips. Two players play alternatively. On a player's turn, they remove at least 1 chip from a pile. First player who cannot move loses the game.

For example, we have three piles with 1, 1, 2 chips. Is there a winning strategy? In this case, there is one for the first player: Player I (p1) removes the pile of 2 chips. This forces p2 to move a pile of 1 chip. p1 removes the last chip. p2 has no move and loses the game. In this case, p1 has a winning strategy, so this is a **winning game** or **winning position**.

Now let's look at another example with two piles of 5 chips each. Regardless of what p1 does, p2 can make the same move on the other pile. p1 loses. If p1 loses regardless of their move (i.e., p2 has a winning strategy), then this is a **losing game** or **losing position**.

What if we have two piles have unequal sizes? say 5, 7. p1 moves to equalize the chip count (remove 2 from the pile of 7). p2 then loses, this is a winning game.

Lemma 1.1

In instances of Nim with two piles of n, m chips, it is a winning game if and only if $m \neq n$.

Solving Nim with only two piles is easy, but what about games with more than two piles?

This is more complicated.

Nim is an example of an **impartial game**. Conditions required for an impartial game:

1. There are 2 players, player I and player II.
2. There are several positions, with a starting position.
3. A player performs one of a set of allowable moves, which depends only on the current position, and not on the player whose turn it is. ("impartial") Each possible move generates an option.
4. The players move alternately.
5. There is complete information.
6. There are no chance moves.
7. The first player with no available move loses.
8. The rules guarantee that games end.

Example: Not an impartial game

Tic-tac-toe: violates 7.

Chess: violates 3, since players can only move their own pieces.

Monopoly: violates 6. Poker: violates 5.

Example:

Let $G = (1,1,2)$ be a Nim game. There are 4 possible moves (hence 4 possible options):

$$\begin{tikzcd}
 & \boxed{H_1 = (1,1,1)} \\
\boxed{G = (1,1,2)} \arrow[ur] \arrow[r] \arrow[dr] \arrow[ddr] & \boxed{H_2 = (1,1,0)} \\
 & \boxed{H_3 = (0,1,2)} \\
 & \boxed{H_4 = (1,0,2)}
\end{tikzcd}$$

Each option is by itself another game of Nim

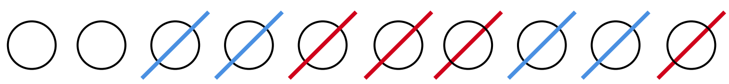
Note:
We can define an impartial game by its position and options recursively.

simpler

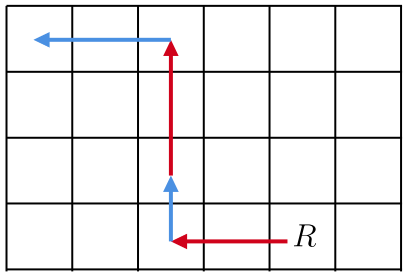
A game H that is reachable from game G by a sequence of allowable moves is **simpler** than G.

Other impartial games:

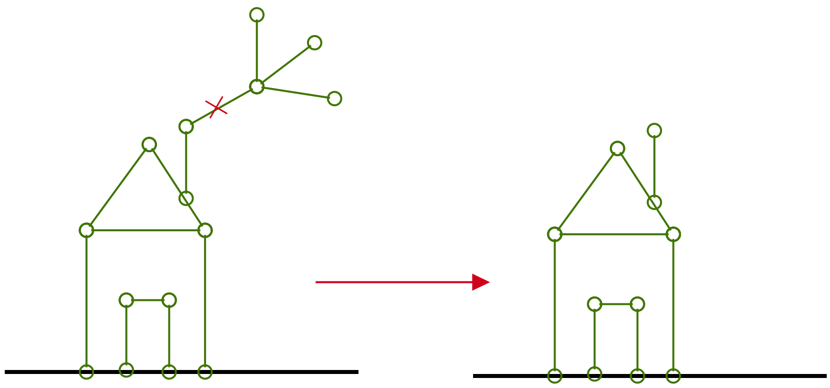
1. Subtraction game: We have one pile of n chips. A valid move is taking away 1, 2, or 3 chips. The first player who cannot move loses.



2. Rook game: We have an $m \times n$ chess board, and a rook in position (i, j). A valid move is moving the rook any number of spaces left or up. The first player who cannot move loses.



3. Green hackenbush game: We have a graph and the floor. The graph is attached to the floor at some vertices. A move consists of removing an edge of the graph, and any part of the graph not connected to the floor is removed. The first player who cannot move loses.



Spoiler A main result we will prove is that all impartial games are essentially like a Nim game.

Lemma 1.2

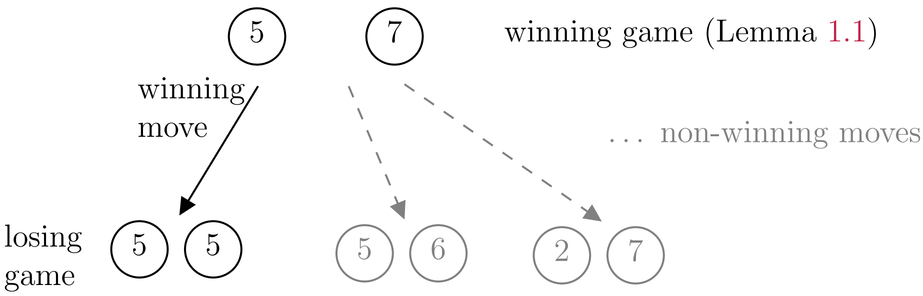
In any impartial game G, either player I or player II has a winning strategy.

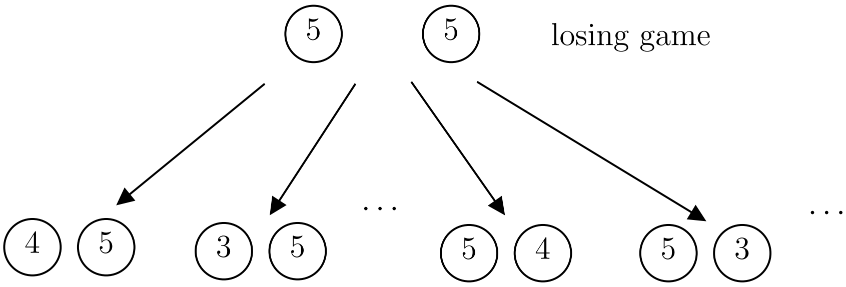
Proof:

We prove by induction on the simplicity of G. If G has no allowable moves, then p1 loses, so p2 has a winning strategy. Assume G has allowable moves and the lemma holds for games simpler than G. Among all options of G, if p1 has a winning strategy in one of them, then p1 moves to that option and wins. Otherwise, p2 has a winning strategy for all options. So regardless of p1's move, p2 wins. □

So every impartial game is either a winning game (p1 has a winning strategy) or a losing game (p2 has a winning strategy).

Example: Nim





all options are winning games $\implies$ p2 wins

Note:
We assume players play perfectly. If there is a winning move, then they will take it.

1.2 Equivalent games

game sums

Let G and and H be two games with options $G_1, \ldots, G_m$ and $H_1, \ldots, H_n$ respectively. We define $G + H$ as the games with options

$$G_1 + H, \ldots, G_m + H, G + H_1, \ldots, G + H_n.$$

Example:
We denote $*n$ to be a game of Nim with one pile of n chips. Then $*1 + *1 + *2$ is the game with 3 piles of 1, 1, 2 chips.

Example:
If we denote $\#2$ to be the subtraction game with n chips, then $*5 + \#7$ is a game where a move consists of either removing at least 1 chip from the pile of 5 (Nim game), or removing 1, 2 or 3 chips from the pile of 7 (subtraction game).

Lemma 1.3

Let $\mathcal{G}$ be the set of all impartial games. Then for all $G, H, J \in \mathcal{G}$,

1. $G + H \in \mathcal{G}$ (closure)
2. $(G + H) + J = G + (H + J)$ (associative)
3. There exists an identity $0 \in \mathcal{G}$ (game with no options) where $G+0 = 0+G = G$
4. $G + H = H + G$ (symmetric)

Note:
This is an abelian group except the inverse element.

equivalent game

Two games G, H are **equivalent** if for any game J, $G+J$ and $H+J$ have the same outcome (i.e., either both are winning games, or both are losing games).

Notation: $G \equiv H$.

Example:
$*3 \equiv *3$ since $*3 + J$ is the same game as $*3 + J$ for any J, so they have the same outcome.

$*3 \not\equiv *4$ since $*3+*3$ is a losing game, but $*4+*3$ is a winning game from Lemma 1.1.

Lemma 1.4

$*n \equiv *m$ if and only if $n = m$.

Lemma 1.5

The relation $\equiv$ is an equivalence relation. That is, for all $G, H, K \in \mathcal{G}$,

1. $G \equiv G$ (reflexive)
2. $G \equiv G$ if and only if $H \equiv G$ (symmetric)
3. If $G \equiv H$ and $H \equiv K$, then $G \equiv K$ (transitive).

Exercise:
Prove that if $G \equiv H$, then $G + J \equiv H + J$ for any game J.

Note that the definition above only says they have the same outcome. To prove that they are equivalent, one needs to add another game on both sides to show they have the same outcome.

Nim with one pile $*n$ is a losing game if and only if $n = 0$.

Theorem 1.6

G is a losing game if and only if $G \equiv *0$.

Proof:

$\Leftarrow$ If $G \equiv *0$, then $G + *0$ has the same outcome as $*0 + *0$. But $*0$ is a losing game, so G is a losing game.

$\Rightarrow$ Suppose J is a losing game. (We want to show $G \equiv *0$, meaning $G + J$ and $*0 + J \equiv J$ have the same outcome.)

1. Suppose J is a losing game. (We want to show that $G + J$ is a losing game.)

   We will prove "If G and J are losing games, then $G + J$ is a losing game" by induction on the simplicity of $G + J$. When $G + J$ has no options, then G, J both have no options, so $G, J, G + J$ are all losing games.

   Suppose $G + J$ has some options. Then p1 makes a move on G or J. WLOG say p1 makes a move in G, and results in $G' + J$. Since G is a losing game, G' is a winning game. So p2 makes a winning move from G' to G'', and this results in $G'' + J$. Then G'' is a losing game, so by induction, $G'' + J$ is a losing game for p1. So p1 loses, and $G + J$ is a losing game.

2. Suppose J is a winning game. Then J has a winning move to J'. So p1 moves from $G + J$ to $G + J'$. Now both G, J' are losing games, so by case 1, $G + J'$ is a losing game. So p2 loses, meaning p1 wins, so $G + J$ is a winning game.

$\square$

Corollary 1.7

If G is a losing game, then J and $J + G$ have the same outcome for any game J.

Proof:

Since G is a losing game, $G \equiv *0$ by Theorem 1.6. Then $J + G \equiv J + *0 \equiv J$ (previous exercise + Lemma 1.3). So J and $G + J$ have the same outcome. $\square$

Example:

1. Recall $*5 + *5$ and $*7 + *7$ are losing games. Then Corollary 1.7 says $*5 + *5 + *7 + *7$ is also a losing game. (p1 moves in either $*5 + *5$ or $*7 + *7$. Then p2 makes a winning move from the same part, equalizing piles.)

2. $\underbrace{*1 + *1 + *2}_{\text{winning}} + \underbrace{*5 + *5}_{\text{losing}}$. Corollary 1.7 implies this is a winning game.

   (p1 makes a winning move in $*1 + *1 + *2$, therefore we have $\underbrace{*1 + *1}_{\text{losing}} + \underbrace{*5 + *5}_{\text{losing}}$. p2 loses.)

Lemma 1.8: Copycat principle

For any game G, $G + G \equiv *0$.

Proof:
Induction on the simplicity of G. When G has no options, $G+G$ has no options, so $G+G \equiv *0$ by Theorem 1.6. Suppose G has options, and WLOG suppose p1 moves from $G+G$ to $G'+G$. Then p2 can move to $G'+G'$. By induction, $G'+G' \equiv *0$, so it is a losing game for p1. Therefore, $G+G$ is a losing game, and $G+G \equiv *0$. □

Lemma 1.9

$G \equiv H$ if and only if $G+H \equiv *0$.

Proof:

- $\Rightarrow$ From $G \equiv H$, we add H to both sides to get $G+H \equiv H+H \equiv *0$ by the copycat principle.
- $\Leftarrow$ From $G+H \equiv *0$, we add H to both sides to get $G+H+H \equiv *0+H \equiv H$. But $G+G+G \equiv G+*0 \equiv G$ by the copycat principle. So $G \equiv H$. □

Example:
$*1+*2+*3$ is a losing game, so $*1+*2+*3 \equiv *0$. By Lemma 1.9, $*1+*2 \equiv *3$, or $*1+*3 \equiv *2$.

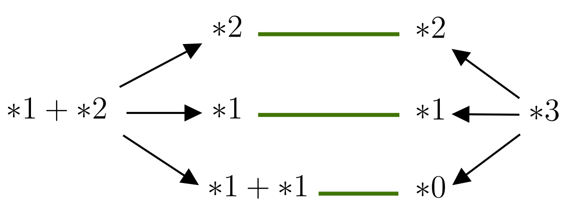
Another way to prove game equivalence is by showing that they have equivalent options.

Lemma 1.10

If the options of G are equivalent to options of H, then $G \equiv H$. (More precisely: There is a bijection between options of G and H where paired options are equivalent.)

Proof:
It suffices to show that $G+H \equiv *0$ by Lemma 1.9, i.e., $G+H$ is a losing game. This is true when G, H both have no options. Suppose G, H have options, and suppose WLOG p1 moves to $G'H$. By assumption, there exists an options of H, say H', such that $H' \equiv G'$. So p2 can move to $G'+H'$. Since $G' \equiv H'$, $G'+H' \equiv *0$ by Lemma 1.9. So $G'+H'$ is a losing game for p1. Hence $G+H$ is a losing game. □

Example:
We can show $*1+*2 \equiv *3$ using Lemma 1.10.



Note:
The converse is false.

1.3 Nim and nimbers

Goal Show that every Nim game is equivalent to a Nim game with a single pile.

nimber

If G is a game such that $G \equiv *n$ for some n, then n is the **nimber** of G.

Example:
Any losing game has nimber 0 by Theorem 1.6.

Exercise:
Show that the notion of a nimber is well-defined. That is it is not possible for a game to have more than one nimber.

Theorem 1.11

Suppose $n = 2^{a_1} + 2^{a_2} + \ldots$ where $a_1 > a_2 > \ldots$, then $*n \equiv *2^{a_1} + *2^{a_2} + \ldots$.

Example:
$11 = 2^3 + 2^1 + 2^0$, $13 = 2^3 + 2^2 + 2^0$. Using this theorem, $*11 \equiv *2^3 + *2^1 + *2^0$ and $*13 \equiv *2^3 + *2^2 + *2^0$. Then

$$\begin{aligned} *11 + *13 &\equiv (*2^3 + *2^1 + *2^0) + (*2^3 + *2^2 + *2^0) \\ &\equiv (*2^3 + *2^3) + *2^2 + *2^1 + (*2^0 + *2^0) \quad \text{by assoc'y and commu'y} \\ &\equiv *0 + *2^2 + *2^1 + *0 \quad \text{by copycat principle} \\ &\equiv *2^2 + *2^1 \\ &\equiv *(2^2 + 2^1) \\ &\equiv *6 \end{aligned}$$

So the nimber of $*11 + *13$ is 6.

In general, how can we find the nimber for $*b_1 + *b_2 + \ldots + *b_n$? Look for binary expansions of each b_i. Copycat principle cancels any pair of identical powers of 2. So we look for powers of 2's that appear in odd number of expansions of the b_i's.

Use binary numbers: 11 in binary is 1011, 13 in binary is 1101. Take the XOR operation. We do normal addition except we do not carry over.

$$\begin{array}{rr} & 1011 \\ \oplus & 1101 \\ \hline & 0110 \end{array}$$

and 0110 is 6. So $11 \oplus 13 = 6$.

Example:
Consider $*25 + *21 + *11$. In binary they are $11001, 10101, 01011$.

$$\begin{array}{rr} & 11001 \\ & 10101 \\ \oplus & 01011 \\ \hline & 00111 \end{array}$$

and 00111 is 7. So $*25 + *21 + *11 \equiv *7$. (The nimber is 7)

Corollary 1.12

$*b_1 + *b_2 + \ldots + *b_n \equiv *(b_1 \oplus b_2 \oplus \ldots \oplus b_n)$.

This shows that every Nim game has a nimber.

Winning strategy for Nim

Example:

$*11 + *13 \equiv *6$. This is a winning game. How to find a winning move? Want to move a game equivalent to $*0$. Add $*6$ to both sides: $*11 + *13 + *6 \equiv *6 + *6 \equiv *0$ (copycat principle).

Consider $*11 + (*13 + *6)$. We see $13 \oplus 6 = 11$. So this is equivalent to $*11 + *11$, a losing game. Winning move: remove 2 chips from the pile of 13.

Example:

$*25 + *13 + *11 \equiv *7$. Add $*7$ to both sides. Consider $*25 + (*21 + *7) + *11$. We see $21 \oplus 7 = 18$, so this is equivalent to $*25 + *18 + *11$. Winning move: remove 3 chips from the pile of 21.

Why did we pair $*7$ with $*21$ instead of $*25$ or $*11$? $25 \oplus 7 = 31$, $11 \oplus 7 = 12$. This means that we are adding 6 chips to 25, or adding 1 chip to 11. Not allowed in Nim.

Lemma 1.13

If $*b_1 + \ldots + *b_n \equiv *s$ where $s > 0$, then there exists some b_i where $b_i \oplus s < b_i$.

Idea: Look for the largest power of 2 in s.

$$*25 + *21 + *11 \equiv *7 \qquad \begin{array}{rccccc|l}
 & 1 & 1 & \boxed{0} & 0 & 1 & 25 \\
 & 1 & 0 & \boxed{1} & 0 & 1 & 21 \\
\oplus & 0 & 1 & \boxed{0} & 1 & 1 & 11 \\
\hline
 & 0 & 0 & \boxed{1} & 1 & 1 & 7 \\
 & & & \uparrow & \uparrow & \uparrow & \\
 & & & 4 & 2 & 1 &
\end{array}$$

$21 \oplus 7$: 4 is subtracted from 21

$25 \oplus 7$ or $11 \oplus 7$: 4 is added

$\leftarrow 4 > 2 + 1 \longrightarrow$ $\oplus$ reduces 21, $\oplus$ increases 25 or 11

Proof:

Suppose $s = 2^{a_1} + 2^{a_2} + \ldots$ where $a_1 > a_2 > \ldots$. Then 2^{a_1} appears in the binary expansions of $b_1, \ldots, b_n$ an odd number of times. Let b_i be one of them. Suppose $*b_i + *s \equiv *t$ for some t. Since 2^{a_1} is in the binary expansions of b_i and s, 2^{a_1} is not in the binary expansion of t. For $2^{a_2}, 2^{a_3}, \ldots$, at worse none of them are in the binary expansion of b_i, so all of them are in the binary expansion of t. So

$$t \leq b_i - 2^{a_1} + 2^{a_2} + 2^{a_3} + \ldots < b_i \quad \text{since } 2^{a_1} > 2^{a_2} + 2^{a_3} + \ldots$$

$\square$

Finding winning moves in a winning Nim game: Say a game has nimber s. Look at the largest power of 2 in the binary expansion of s. Pair it up with any pile $*b_i$ containing this power of 2. Then $s \oplus b_i < b_i$. So a winning move is taking away $b_i - (s \oplus b_i)$ chips from the pile $*b_i$.

Now we wish to prove Theorem 1.11. The proof uses the following lemma:

Lemma 1.14

Let $0 \le p, q < 2^a$, and suppose Theorem 1.11 hold for all values less than 2^a. Then $p \oplus q < 2^a$.

Illustration for the proof of Theorem 1.11. Consider $*7$. $7 = 4 + 2 + 1$. Want to prove $*7 \equiv *4 + \underbrace{*2 + *1}_{\equiv *3 \text{ by induction}}$

Options of $*7$: $*0, *1, \ldots, *6$

Options of $*4 + *3$: (1) Move on $*4$ (2) Move on $*3$

(1)

$$\left.\begin{aligned} *0 + *3 &\equiv *3 \\ *1 + *3 &\equiv *2 \\ *2 + *3 &\equiv *1 \\ \underbrace{*3}_{<4} + \underbrace{*3}_{<4} &\equiv \underbrace{*0}_{\Rightarrow <4} \end{aligned}\right\} \text{distinct} \qquad \text{by Lemma 1.14}$$

(2)

$$\begin{aligned} *4 + *2 &\equiv *6 \\ *4 + *1 &\equiv *5 \\ \underbrace{*4 + \underbrace{*0}_{\text{binary expansion do not have 4}}}_{\substack{\text{each power of 2 appears at most once} \\ \Rightarrow \text{ apply induction}}} &\equiv *4 \end{aligned}$$

Proof of Theorem 1.11:
We prove by induction on n.

When $n = 1$, $n = 2^0$ and $*1 \equiv *2^0$. Suppose $n = 2^{a_1} + 2^{a_2} + \ldots$ where $a_1 > a_2 > \ldots$. Let $q = n - 2^{a_1} = 2^{a_2} + 2^{a_3} + \ldots$.

If $q = 0$, then $n = 2^{a_1}$, so $*n \equiv 2^{a_1}$.

Assume $q \ge 1$. Since $q < n$, by induction, $*q \equiv *2^{a_2} + *2^{a_3} + \ldots$. It remains to show that $*n \equiv *2^{a_1} + *q$. The options of $*n$ are $*0, *1, \ldots, *(n-1)$. The options of $*2^{a_1} + *q$ can be partitioned into 2 types.

1. Consider options of the form $*i + *q$ where $0 \le i < 2^{a_1}$. Since $i, q < n$, by induction, the theorem holds for i, q. So $*i, *q$ are equivalent to sums of Nim piles by their binary expansions. Using arguments from Corollary 1.12, $*i + *q \equiv *r_i$ where $r_i = i \oplus q$. Since $i, q < 2^{a_1}, r_i < 2^{a_1}$ by Lemma 1.14. So $0 \le r_0, r_1, \ldots r_{2^{a_1}-1} < 2^{a_1}$.

   (We now show that these r_i's are distinct.) Suppose $r_i = r_j$ for some i, j. Then $*r_i \equiv *r_j$, so $*i + *q \equiv *j + *q$. Adding $*q$ on both sides, we get $*i \equiv *j$ (copycat principle), so $i = j$. So the r_i's are distinct.

   Also there are 2^{a_1} of these r_i's, and there are 2^{a_1} possible values (0 to $2^{a_1} - 1$). By Pigeonhole principle, for each $0 \le j \le 2^{a_1} - 1$, there is one r_i with $r_i = j$. So the options of this type are equivalent to $\{*0, *1, \ldots, *(2^{a_1} - 1)\}$.

2. Consider options of the form $*2^{a_1} + *i$ where $0 \le i < q$. Suppose $i = 2^{b_1} + 2^{b_2} + \ldots$ where $b_1 > b_2 > \ldots$. Then no b_i is equal to a_1 since $i < q = 2^{a_2} + \ldots$. So $2^{a_1} + 2^{b_1} + \ldots$ is a sum of distinct powers of 2. Then

$$\begin{aligned} *2^{a_1} + *i &\equiv *2^{a_1} + *2^{b_2} + \ldots && \text{by applying induction on } i \\ &\equiv *(2^{a_1} + 2^{b_1} + 2^{b_2} + \ldots) && \text{by applying induction on } 2^{a_1} + i \\ &\equiv *(2^{a_1} + i) \end{aligned}$$

Since $0 \le i < q$, the options of this type are equivalent to $\{*2^{a_1}, *(2^{a_1}+1), \ldots, \underbrace{(2^{a_1}+q-1)}_{n-1}\}$.

Combining the two types of options, we see that the options of $*2^{a_1} + *q$ are equivalent to the options of $*n$. So $*2^{a_1} + *q \equiv *n$. □

1.4 Sprague-Grundy theorem

So far: All Nim games are equivalent to a Nim game of a single pile. Goal: Extend this to all impartial games.

Poker nim

Being equivalent does not mean that they play the same way.

Example:
$*11 + *13 \equiv *6$.

We move to $*11 + *11 \equiv *0$ by removing 2 chips from $*13$. RHS remove 6 chips.

There are other moves, say we move to $*11 + *8 \equiv *15$. We remove 5 chips from $*13$. RHS adding 9 chips.

Or, starting with $*11 + *11 \equiv *0$, any move on $*11 + *11$ will increase $*0$.

A variation on Nim: Poker nim consists of a regular Nim game plus a bag of B chips. We now allow regular Nim moves and adding $B' \le B$ chips to one pile. Example: $*3 + *4 \to *53 + *4$.

How does this change the game of Nim?

Nothing. Say we face a losing game, so any regular Nim move would lead to a loss. In poker nim, we now add some chips to one pile. The opposing player will simply remove the chips we placed, and nothing changed.

When we say that a game is equivalent to a Nim game with one pile, it is actually a game is equivalent to a Nim game with one pile, it is actually a game of poker nim with one pile.

Mex

Suppose a game G has options equivalent to $*0, *1, *2, *5, *10, *25$. We claim that G is equivalent to $*3$. The options of $*3$, which are $*0, *1, *2$, are all available. If we add chips to $*3$, then the opposing player can remove them to get back to $*3$. How do we get 3?

mex(S)

Given a set of non-negative integers S, mex(S) is the smallest non-negative integer not in S. "**minimum excluded integer**"

Example:
$\text{mex}(\{0, 1, 2, 5, 15, 25\}) = 3$.

The mex function is the critical link between any impartial games and Nim games.

Theorem 1.15

Let G be an impartial game, and let S be the set of integers n such that there exists an option of G equivalent to $*n$. Then $G \equiv *(\mathrm{mex}(S))$.

Example:

$$\begin{tikzcd}
 & *1 + *2 \equiv *3 \\
*1 + *1 + *2 \arrow[ur] \arrow[r] \arrow[dr] & *1 + *1 \equiv *0 \\
 & *1 + *1 + *1 \equiv *1
\end{tikzcd}$$

By theorem, $*1 + *1 + *2 \equiv *(\mathrm{mex}(\{0, 1, 3\})) \equiv *2$.

Exercise:
A game cannot be equivalent to one of its options.

Proof of Theorem 1.15:
Let $m = \mathrm{mex}(S)$. It suffices to show that $G + *m \equiv *0$.

1. Suppose we move to $G + *m'$ where $m' < m$. Since $m = \mathrm{mex}(S)$, there exists an option G' of G such that $G' \equiv *m'$. p2 moves to $G' + *m'$, which is a losing game since $G' \equiv *m'$. So $G + *m$ is a losing game for p1, and $G + *m \equiv *0$.

2. Suppose we move to $G' + *m$, where G' is an option of G. Then $G' \equiv *k$ for some $k \in S$. So $G' + *m \equiv *k + *m \not\equiv *0$ since $k \neq \mathrm{mex}(S)$. So $G' + *m$ is a winning game for p2. Then $G + *m$ is a losing game for p1, so $G + *m \equiv *0$.

□

Theorem 1.16: Sprague-Grundy Theorem

Any impartial game G is equivalent to a poker nim game $*n$ for some n.

Proof (slightly sketchy):
If G has no options, then $G \equiv *0$. Suppose G has options $G_1, \ldots, G_k$. By induction, $G_i \equiv *n_i$ for some n_i. By Theorem 1.15, $G \equiv *(\mathrm{mex}(\{n_1, \ldots, n_k\}))$. □

So any impartial game has a nimber.

Finding nimbers is recursive: Games with no options have nimber 0. Move backwards and use mex to determine other nimbers.

Example: Rock game

	1	2	3	4	5	
1	$*0$	$*1$	$*2$	$*3$	$*4$	
2	$*1$	$*0$	$*3$	$*2$	$*5$	
3	$*2$	$*3$	$*0$	$*1$	$*6$	
4	$*3$	$*2$	$*1$	$*0$	R	$\leftarrow *7$
					$(4, 5)$	

Winning move: move to $(4,4)$, an options with nimber 0.

This is like a 2-pile Nim game.

Example: Subtraction game (remove 1,2, or 3 chips)

Let s_n be the nimber of a subtraction game with n chips. Then $s_n = \text{mex}(\{s_{n-1}, s_{n-2}, s_{n-3}\})$ (if they exist)

n	0	1	2	3	4	5	6	7	8	9	10	11	12	...
s_n	0	1	2	3	0	1	2	3	0	1	2	3	0	...

Losing game if and only if $n \equiv 0 \mod 4$. When $n \not\equiv 0 \mod 4$, the winning move is remove just enough chips to the next multiple of 4.

Example:

Subtraction game with removing 2, 5, or 6 chips Then $s_n = \text{mex}(\{s_{n-2}, s_{n-5}, s_{n-6}\})$ (if they exist)

n	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	...
s_n	0	0	1	1	0	2	1	3	0	2	1	0	0	1	1	...

repeats (not proved here)

Losing game if and only if $n \equiv 0, 1, 4, 8 \mod 11$. Winning move from 9: move to 4.

Example: Combining games

Let G be the rook game at $(4,2)$. Let H be the second subtraction with $n = 7$.

Then $G \equiv *2, H \equiv *3$, so $G + H \equiv *2 + *3 \equiv *1$. Winning game.

Winning move:

- From H, $3 \oplus 1 = 2$. Move to $*2$. Remove 2 chips in the subtraction game.
- From G, $2 \oplus 1 = 3$. Move to $*3$. Move to $(4,1)$ or $(3,2)$.

2 Strategic games

Example: Prisoner's dilemma

Game show version: 2 players won \$10,000. They each need to make a final decision: "share" or "steal".

- If both pick "share", then they each win \$5,000.
- If one picks "steal" and the other picks "share", then the one who picks "steal" gets \$10,000, the other gets nothing.
- If both pick "steal", then they both get a consolation price with \$10.

How would players behave? The benefit a player receives is dependent on their own decision and the decisions of other players.

strategic game

A **strategic game** is defined by specifying a set $N = \{1, \ldots, n\}$ of players, and for each player $i \in N$, then there is a set of possible strategies s_i to play, and a utility function: $u_i : s_1 \times \cdots \times s_n \to \mathbb{R}$.

Example:

With prisoner's dilemma above, $s_1 = s_2 = \{\text{share,steal}\}$. Samples of the utility functions: $u_1(\text{share,share}) = 5000, u_2(\text{steal,share}) = 0$. We can summarize the utility functions in a payoff table.

		PII	
		share	steal
PI	share	5k, 5k	0, 10k
	steal	10k, 0	10, 10

Each cell records the utilities of PI, PII in this order given the strategies played in that row (PI) and column (PII).

Assumptions about strategic games;

1. All players are rational and selfish (want to maximize their own utility).

2. All players have knowledge of all game parameters.
3. All players move simultaneously.
4. Player i plays a strategy $s_i \in S_i$, this forms a strategy profile $s = (s_1, \dots, s_n) \in S_1 \times \cdots \times S_n$. Player i earns $u_i(s)$.

Given a strategic game, what are we looking for? One answer is we want to know how are the players expected to behave?

Resolving prisoner's dilemma

Recall the payoff table from a previous example. What would a rational and selfish player choose to play?

1. If you know that the other player chooses to "share", then choosing "share" gives 5k, choosing "steal" gives 10k. Steal is better.
2. If you know that the other player chooses "steal", then choosing "share" gives 0, choosing "steal" gives 10. Steal is better.

In both cases, it is better to steal than to share. So we expect both players to choose "steal".

This is an example of a **strictly dominating strategy**: regardless of how other players behave, this strategy gives the best utility over all other possible strategies. If a strictly dominating strategy exists, then we expect the players to play it.

In this case, playing a strictly dominating strategy "steal" yields very little benefit. They could get more if there is some cooperation (both share). So even though we expect strictly dominating strategy is played, it might not have the best "social welfare" (the overall utility of the players).

2.1 Nash equilibrium

There are many games with "no" strictly dominating strategies.

Example: Bach or Stravinsky?

Two players want to go to a concert. Player I likes Bach, player II likes Stravinsky, but they both prefer to be with each other. Payoff table:

		PII	
		Bach	Stravinsky
PI	Bach	2, 1	0, 0
	Stravinsky	0, 0	1, 2

No strict dominating strategy exists.

What do we expect to happen? If both choose "Bach", then there is no reason for one player to switch their strategy (which gives utility 0). Similar if both choose "Stravinsky".

These are steady states, which we call **Nash equilibria**: a strategy profile where no player is incentivized to change strategy.

Mixed strategies

There are many games with no Nash equilibria.

Example: Rock paper scissors

R beats S, S beats P, P beats R. Utility 1 if they win, -1 if they lose, 0 if they tie.

		PII		
		R	P	S
	R	0, 0	-1, 1	1, -1
PI	P	1, -1	0, 0	-1, 1
	S	-1, 1	1, -1	0, 0

"No" NE exist: regardless what they play, someone is incentivized to switch strategy so that they win.

How would we expect players to play this? Randomly, probability $\frac{1}{3}$ each. This is a **mixed strategy**. IT is also a NE, there is no incentive to change to a different probability distribution.

Nash's Theorem

Every strategic game with finite number of strategies has a Nash equilibrium (could be mixed strategies).

Notation

Recall: Strategic game is defined by

- Players $N = \{1, \dots, n\}$.
- Strategy set S_i for player i.
- Utility for player i: $u_i : s_1 \times \cdots s_n \to \mathbb{R}$. A strategy profile is a vector $s = (s_1, \dots, s_n) \in S_1 \times \cdots S_n$ which records what the players played.

Let $S = S_1 \times S_n$ be the set of all strategy profiles. We will often compare the utilities of a player's strategies when we fix the strategies of the remaining players. Let S_{-i} be the set of all strategy profiles of all players except player i (we drop S_i from the cartesian product $S_1 \times \cdots S_n$). If $s \in S$, then the profile obtained from s by dropping s_i is denoted $s_{-i} \in S_{-i}$. If player i switches their strategy from s_i to s_i', then the new strategy profile is denoted $(s_i', s_{-i}) \in S$.

Nash equilibrium

A strategy profile $s^* \in S$ is a **Nash equilibrium** if $u_i(s^*) \geq u_i(s_i', s_{-i}^*)$ for all $s_i' \in S_i$ and for all $i \in N$.

Example: Prisoner's dilemma

		PII share	PII steal
PI	share	5k, 5k	0, 10k
	steal	10k, 0	10, 10

Let $s^* = (\text{steal}, \text{steal})$.

From PI: $u_1(s^*) = 10$, $u_1(\underbrace{\text{share}}_{s'_1}, \underbrace{\text{steal}}_{s'_{-1}}) = 0 < u_1(s^*)$.

Similar for PII. So s^* is a NE.

Example: Guess 2/3 average game

3 players, a positive integer k. Each player simultaneously pick an integer from $\{1, \ldots, k\}$, producing the strategy profile $s = (s_1, s_2, s_3)$. There is \$1 which is split among all players whose choices are closest to $\frac{2}{3}$ of the 3 numbers. Other players get \$0.

If $s = (5, 2, 4)$, then the average is $\frac{11}{3}$, and $\frac{2}{3}$ average is $\frac{22}{9} = 2 + \frac{4}{9}$. p2 is the closest, so $u_2(s) = 1, u_1(s) = u_3(s) = 0$. Is s a NE? No. If p1 switches to 2, the $u_1(2, s_{-1}) = u_1(2, 2, 4) = \frac{1}{2}$. ($\frac{2}{3}$ average is $\frac{16}{9}$, closer to 2 than 4).

Is there a NE? Idea: Lowering the guess generally pulls the $\frac{2}{3}$ average closer. Try $(1, 1, 1)$. If a player switches to $t \geq 2$, then the $\frac{2}{3}$ average is $\frac{4+2t}{9} = \frac{4}{9} + \frac{2}{9}t$, which is closer to 1 than t.

Prove that $(1, 1, 1)$ is the only NE of this game.

2.2 Best response function

For a NE, a player does not want to switch. If you fix the strategies of the remaining players, then you play a strategy that maximizes utility for yourself, i.e., it is a "best response" to the fixed strategies.

best response function

Player i's **best response function** for $s_{-i} \in S_{-i}$ is given by

$$B_i(s_{-i}) = \{s'_i \in S_i : \underbrace{u_i(s'_i, s_{-i})}_{\text{utility of a best response}} \geq \underbrace{u_i(s_i, s_{-i})}_{\text{utility of all possible responses to } s_{-i}} \quad \forall s_i \in S_i\}.$$

Example: Prisoner's dilemma

$B_1(\text{share}) = \{\text{steal}\}, \qquad B_1(\text{steal}) = \{\text{steal}\}.$

Example: 2/3 average game

$$B_1(5, 5) = \{1, 2, 3, 4\} \qquad u_1(x, 5, 5) = \begin{cases} 1 & x < 5 \quad \text{best response} \\ 1/3 & x = 5 \\ 0 & x > 5 \end{cases}$$

If s^* is a NE, then each player i must have played a best response to s^*_{-i}. Changing s^*_i cannot increase utility for i. Converse is also true.

Lemma 2.1

$s^* \in S$ is a Nash equilibrium if and only if $s^*_i \in B_i(s^*_{-i})$ for all $i \in N$.

This lemma helps us find NE by looking for strategies in the BRF.

Example:

PI \ PII	share	steal
share	5k, 5k	0, 10k°
steal	10k*, 0	10*, 10°

These are best responses to each other. So this is a NE

$$\begin{array}{lll} B_1(\text{share}) = \{\text{steal}\} & B_1(\text{steal}) = \{\text{steal}\} & * \\ B_2(\text{share}) = \{\text{steal}\} & B_2(\text{steal}) = \{\text{steal}\} & \circ \end{array}$$

Example: Arbitrary game

PI \ PII	X	Y	Z
A	1, 2°	2*, 1	1*, 0
B	2*, 1°	0, 1°	0, 0
C	0, 1	0, 0	1*, 2°

$$\begin{array}{llll} B_1(X) = \{B\} & B_1(Y) = \{A\} & B_1(Z) = \{A, C\} & * \\ B_2(A) = \{X\} & B_2(B) = \{X, Y\} & B_2(C) = \{Z\} & \circ \end{array}$$

NE are (B, X) and (C, Z), as they are best responses to each other. The rest are not NE as one is not a best response to the other.

2.3 Cournot's oligopoly model

We have a set $N = \{1, \ldots, n\}$ of n firms producing a single type of goods sold on the common market. Each firm i needs to decide the number of units of goods q_i to produce. (variables)

Production cost is $C_i(q_i)$ where C_i is a given increasing function.

Given a strategy profile $q = (q_1, \ldots, q_n)$, a unit of the goods sell for the price of $P(q)$, where P is a given non-increasing function on $\sum_i q_i$ (more goods in the market = low price)

The utility of firm i in the strategy profile q is $u_i(q) = \underbrace{q_i P(q)}_{\substack{\text{revenue for} \\ \text{selling } q_i \text{ units}}} - \underbrace{c_i(q_i)}_{\substack{\text{production} \\ \text{production cost}}}$

Szidarovszky and Yakowitz proved that a Nash equilibrium always exists under some continuity and differentiability assumptions on P, C.

Special case: linear costs and prices

Suppose we assume $C_i(q_i) = cq_i, \forall i \in N$ (the cost is linear, same unit cost c for all firms). $P(q) = \max\{0, \alpha - \sum_j q_j\}$ (prices starts at α, decreases 1 for each unit produced, min price 0) where $0 < c < \alpha$.

Utility is

$$u_i(q) = q_i P(q) - C_i(q_i) = \begin{cases} q_i(\alpha - c - \sum_j q_j) & \alpha - \sum_j q_j \geq 0 \\ -cq_i & \alpha - \sum_j q_j < 0 \end{cases}$$

When is it possible to make a profit? When $\alpha - c - \sum_j q_j > 0$. Separate q_i from the sum: $\alpha - c - q_i - \sum_{i \neq j} q_j > 0$. So $q_i < \alpha - c - \sum_{j \neq i} q_j$. Does not make sense for q_i if RHS ≤ 0, so assume RHS > 0.

The utility is $q_i(\alpha - c - q_i - \sum_{j \neq i} q_j)$. Treating q_i as the variable, this utility is maximized when $q_i = (\alpha - c - \sum_{j \neq i} q_j)/2$. So the best response function for firm i given the production of other firms q_{-i} is

$$B_i(q_{-i}) = \begin{cases} \left\{(\alpha - c - \sum_{j \neq i} q_j)/2\right\} & \alpha - c - \sum_j q_j > 0 \\ \{0\} & \text{otherwise} \end{cases}$$

Two-firm case

Suppose we simplify to 2 firms. Suppose $q^* = (q_1^*, q_2^*)$ is a Nash equilibrium. By Lemma 2.1, a player's choice must be the best response to the other player's choice. So $q_1^* \in B_1(q_2^*)$ and $q_2^* \in B_2(q_1^*)$.

Verify that we may assume $q_1^*, q_2^* > 0$. Then $q_1^* = (\alpha - c - q_2^*)/2$ and $q_2^* = (\alpha - c - q_1^*)/2$.

Solving this gives $q_1^* = q_2^* = (\alpha - c)/3$. This is the amount we expect each firm to produce at equilibrium.

Price at equilibrium: $P(q^*) = \alpha - q_1^* - q_2^* = \alpha - \dfrac{2}{3}(\alpha - c) = \dfrac{\alpha}{3} + \dfrac{2c}{3}$.

Profit at equilibrium: $u_i(q^*) = q_i^*(\alpha - c - q_1^* - q_2^*) = (\alpha - c)^2/9$.

Note:

1. Suppose the two firms can collude, and together they produce Q units total. Total profit is $Q(\alpha - c - Q)$, which is maximized at $Q = (\alpha - c)/2$. The profit is $\left(\frac{\alpha - c}{2}\right)\left(\alpha - c - \frac{\alpha - c}{2}\right) = (\alpha - c)^2/4$. Each firm gets $\frac{(\alpha-c)^2}{8} > \frac{(\alpha-c)^2}{9}$.
2. In the general case with n firms, if q^* is a NE, then $q_i^* = (\alpha - c - \sum_{j \neq i} q_j^*)/2$. Solving this system gives $q_j^* = \frac{\alpha - c}{n+1}$. Price is

$$P(q^*) = \alpha - \sum_j q_j^* = \alpha - \frac{n}{n+1}(\alpha - c) = \frac{1}{n+1}\alpha + \frac{n}{n+1}c$$

   As $n \to \infty, P(q^*) \to c$. As more firms are involved, the expected market price gets closer to the production cost.

2.4 Strict dominance

strict dominance

For two strategies $s_i^{(1)}, s_i^{(2)} \in S_i$ for player i, we say that $s_i^{(1)}$ **strictly dominates** $s_i^{(2)}$ if for all $s_{-i} \in S_{-i}$, $u_i(s_i^{(1)}, s_{-i}) > u_i(s_i^{(2)}, s_{-i})$.

If there exists a strategy that strictly dominates s_i, then s_i is **strictly dominated**.

If s_i strictly dominates all strategies $s_i' \in S_i \setminus \{s_i\}$, then s_i is a **strictly dominating strategy**.

In prisoner's dilemma, "steal" is a strictly dominating strategy for both players.

Lemma 2.2

If $s_i \in S_i$ is a strictly dominating strategy for player i and $s^* \in S$ is a NE, then $s_i^* = s_i$.

In any NE, the strictly dominating strategy is played whenever it exists. A game is easy to play if such a strategy exists.

Now we look at strictly dominated strategies.

Example:

	X	Y	Z
A	4, 2	1, 3	2, 1
B	2, 3	0, 1	3, 1

Z is strictly dominated by X since $u_2(A, X) > u_2(A, Z)$ and $u_2(B, X) > u_2(B, Z)$

Z is a strictly dominated strategy: There is no reason to play it.

Lemma 2.3

IF $s^* \in S$ is a NE, then s_i^* is not strictly dominated for any $i \in N$.

Iterated elimination of strictly dominated strategies (IESDS)

Example:

	X	Y	Z
A	4, 2	1, 3	2, 1
B	2, 3	0, 1	3, 1

Z is strictly dominated, so it will not appear in any NE.

$\xrightarrow{\text{eliminate Z}}$

	X	Y
A	4, 2	1, 3
B	2, 3	0, 1

B is strictly dominated. (Notice this was not the case before)

$\xrightarrow{\text{eliminate B}}$

	X	Y
A	4, 2	1, 3

X is strictly dominated.

$\xrightarrow{\text{eliminate X}}$

	Y
A	1, 3

NE?

IESDS: Repeatedly eliminate strictly dominated strategies until we have only one strategy profile. We claim that if this works, then the surviving profile is the unique NE of the game.

Example: Facility location game

Two firms are each given a permit to open one store in one of 6 towns along a high way. Firm I can open in A, C or E, firm II can open in B, D or F. Assume towns are equally spaced and equally populated. Customers in a town will go to the closest store. Where to open stores?

Firm I \ Firm II	B	D	F
A	1, 5	2, 4	3, 3
C	4, 2	3, 3	4, 2
E	3, 3	2, 4	5, 1

Firm I, A is strictly dominated by C.
Firm II, F is strictly dominated by D.
Eliminate these two strategies.

Firm I \ Firm II	B	D
C	4, 2	3, 3
E	3, 3	2, 4

Firm I, E is strictly dominated by C.
Firm II, B is strictly dominated by D.
Eliminate these two strategies.

Firm I \ Firm II	D
C	3, 3

(C, D) is a NE.

Note: Extend this to 1000 towns with alternating options. The two ends are strictly dominated by the centre towns. Eliminate them to get 998 towns. Repeat. End with the two towns in the centre as NE.

Results in IESDS

Theorem 2.4

Suppose G is a strategic game. If IESDS ends with only one strategy profile s^*, then s^* is the unique Nash equilibrium of G.

This is a consequence of the following result.

Theorem 2.5

Let H be a strategic game where s_i is a strictly dominated strategy for player i. Let G' be obtained from G by removing s_i from S_i. Then s^* is a Nash equilibrium of G if and only if s^* is a Nash equilibrium of G'.

Proof Sketch:

Suppose s^* is a NE of G. Since s_i is strictly dominated, it cannot appear in s^* (Lemma 2.3). So s^* is a valid strategy profile in G'. If s^* is not a NE of G', then a player can deviate to get a higher utility. However, all strategies in G' are available in G, so such a player can do it in G as well. This contradicts s^* is a NE of G.

Suppose s^* is a NE of G'. Suppose s^* is not a NE of G. Then a player can deviate to get a higher utility. This can be replicated in G' (which results in a contradiction) unless it is player i switching to strategy s_i (the only strategy in G not in G'). Then player i could switch to the strategy that strictly dominates s_i (available in G') to get a higher utility in G'. This contradicts s^* is a NE in G'. □

2.5 Weak dominance

weak dominance

For two strategies $s_i^{(1)}, s_i^{(2)} \in S_i$ for player i, we say that $s_i^{(1)}$ **weakly dominates** $s_i^{(2)}$ if for all $s_{-i} \in S_{-i}$, $u_i(s_i^{(1)}, s_{-i}) \geq u_i(s_i^{(2)}, s_{-i})$, and this inequality is strict for at least one $s_{-i} \in S_{-i}$.

If some strategy weakly dominates s_i, then s_i is **weakly dominated**.

If s_i weakly dominates all strategies $s_i' \in S_i \setminus \{s_i\}$, then s_i is a **weakly dominating strategy**.

Example:

PII

PI	X	Y	Z
A	3, 3	1, 1	4, 1
B	2, 1	0, 1	3, 1

Z is weakly dominated by X, $u_2(A, X) > u_2(A, Z)$ and $u_2(B, X) \geq u_2(B, Z)$. Z is not weakly dominated by Y, no strict inequality.

Iterated elimination of weakly dominated strategies (IEWDS)

Remove weakly dominated strategies until there is only one strategy profile.

Example:

Z and Y are weakly dominated by X above. Eliminating them gives

	X
A	3, 3
B	2, 1

A weakly dominates B.

	X
A	3, 3

(A, X) is a NE.

Theorem 2.6

Suppose G is a strategy game. If IEWDS ends with only one strategy profile s^*, then s^* is a Nash equilibrium of G.

Note:
Compared with Theorem 2.4, here we can no longer claim that the NE is unique. A different sequence of eliminations can result in a different NE.

Exercise:

	X	Y	Z
A	1, 1	1, 0	2, 1
B	1, 1	0, 0	0, 0
C	0, 0	0, 0	1, 1

Show that two different applications of IEWDS here could end with two different profiles.

Key difference Unlike strictly dominated strategies, weakly dominated strategies can appear in a NE.

Some NE cannot found through IEWDS, e.g., *Bach or Stravinsky* has no weakly dominated strategies.

Just like strictly dominating strategies, weakly dominating strategies are good to play.

Lemma 2.7

If for all players i, s_i^* is a weakly dominating strategy, then s^* is a Nash equilibrium.

2.6 Auctions

Set up of an auction: A seller puts one item up for an auction. Potential buyers put in bids to buy the item. Seller decides who wins (usually highest bidder) and the prices they pay.

Typical auction: Open bid auction. Buyers bid repeatedly until no one else bids. Highest bid wins and pays their bid price. Another type: Closed bid auctions. Each buyer submits one secret bid to the seller. (Easier to analyze).

First price auction: Highest bid wins, winner pays their bid. For example, 3 bidders: 150, 100, 200, pays 200. Does this simulate an open auction? No, in the open auction setting, the winner will bid slightly over 150 and win, so they pay ∼150.

Second price auction: Highest bid wins, winner pays 2nd highest bid. For example, 3 bidders: 150, 100, 200, pays 150. We will analyze second price closed bid auction.

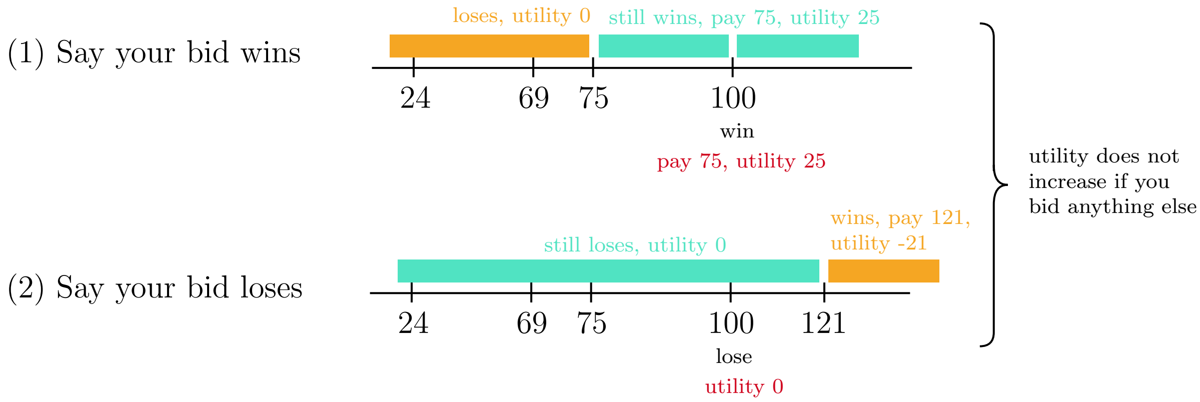
Set up

We have buyers $N = \{1, \ldots, n\}$. Buyer i thinks the item has value v_i "valuation". Suppose buyer i submits the bid b_i, giving strategy profile $b = (b_1, \ldots, b_n)$. The winner is the buyer who submits the highest bid, pays price equal to the second highest bid. If there is a tie, then the winner is the buyer with the lowest index i among all tied buyers.

Given a strategy profile b, the utility for buyer i is

$$u_i(b) = \begin{cases} v_i - \max_{j \neq i} b_j & i \text{wins in } b \\ 0 & \text{otherwise} \end{cases}$$

Suppose your valuation of the item is 100. Would you bid anything other than 100?



Theorem 2.8

In the second price auction, v_i is a weakly dominating strategy for player $i \in N$.

Proof:
We first show that $u_i(v_i, b_{-i}) \geq u_i(b_i, b_{-i})$ for all $b_i \in S_i$ and $b_{-i} \in S_{-i}$. 2 cases.

1. v_i is a winning bid in (v_i, b_{-i}). Let b_j be the second highest bid (could equal v_i). The utility for player i is $u_i(v_i, b_{-i}) = v_i - b_j \geq 0$. Suppose player i changes their bid to b_i.

   If $b_i > b_j$ or ($b_i = b_j$ and $i < j$), then b_i is still the winning bid in (b_j, b_{-i}). Payment is b_j, so utility remains the same. Otherwise, b_i is a losing bid, so the utility is 0, which is at most $u_i(b_i, b_{-i})$.

   So $u_i(v_i, b_{-i}) \geq u_i(b_i, b_{-i})$ for any b_i.

2. v_i is a losing bid in (v_i, b_{-i}). Let b_j be the winning bid (so $b_j \geq b_i$). The utility for player i is $u_i(v_i, b_{-i}) = 0$. Suppose player i changes their bid to b_i.

   If $b_i < b_j$ or ($b_i = b_j$ and $i > j$), then b_i is still a losing bid in (b_i, b_{-i}). Utility is still 0. Otherwise, b_i is a winning bid, with payment b_j. The utility is $u_i(b_i, b_{-i}) = v_i - b_j \leq 0$ (since $b_j \geq v_i$). So $u_i(v_i, b_{-i}) \geq u_i(b_i, b_{-i})$ for any b_i.

In both cases, bidding v_i gives the highest utility among all possible bids of player i.

We still need to show that for all $b_i \neq v_i$, there exists $s_{-i} \in S_{-i}$ such that $u_i(v_i, b_{-i}) > u_i(v_i, b_{-i})$. Two cases:

1. Suppose $b_i < v_i$. Let k be in $b_i < k < v_i$. Set $b_j = k$ for all $j \neq i$.

   When v_i is played against b_{-i}, player i wins ($v_i > k$) and pays k. Utility $u_i(v_i, b_{-i}) = v_i - k > 0$. When b_i is played against b_{-i}, player i loses ($b_i < k$) and utility $u_i(b_i, b_{-i}) = 0$. So $u_i(v_i, b_{-i}) > u_i(b_i, b_{-i})$.

2. Suppose $b_i > v_i$. Let k be in $v_i < k < b_i$. Set $b_j = k$ for all $j \neq i$.

   When v_i is played against b_{-i}, player i loses ($v_i < k$) and utility $u_i(v_i, b_{-i}) = 0$. When b_i is played against b_{-i}, player i wins ($b_i > k$) and pays k. Utility $u_i(b_i, b_{-i}) = v_i - k < 0$. So $u_i(v_i, b_{-i}) > u_i(b_i, b_{-i})$.

Therefore, playing v_i is a weakly dominating strategy. $\square$

Note:
The way we play this game does not depend on knowing how other players value the item. So it is easy to play: simply bid your valuation.

Exercise:
Suppose buyer 1 has highest valuation v_1, and buyer 2 has second highest valuation v_2, then $(v_2, v_1, 0, 0, \ldots, 0)$ is a NE.

2.7 Mixed strategies

Example: Matching pennies
Two players each has a penny. They simultaneously show heads or tails. If they match, then player I gains the penny from player II. If they don't match, then player II gets the penny from player I.

		PII H	PII T
PI	H	1, -1	-1, 1
PI	T	-1, 1	1, -1

There's no Nash equilibrium here (in the way NE has been described so far). Allow players to play this probabilistically. For example, PI might play H $\frac{1}{3}$ of the time, and play T $\frac{2}{3}$ of the time. PII might play $\frac{3}{4}$ on H, $\frac{1}{4}$ on T.

Is there an equilibrium here? If p1 plays $\frac{1}{3}$H, $\frac{2}{3}$T, then p2 wants to play H more often than T. Then p1 wants to play H more often than T. Then p2 wants to play T more often than H, . . . etc. Seems that it is stable only if both players play $\frac{1}{2}$H, $\frac{1}{2}$T.

mixed strategy

A **mixed strategy** for player i is a vector $x_i \in \mathbb{R}_+^{s_i}$ such that $\sum_{s \in S_i} x_s^i = 1$. The set of all mixed strategies for player i is denoted Δ^i.

mixed strategy profile

A **mixed strategy profile** is a vector $x = (x^1, \ldots, x^n)$ where $x_i \in \Delta^i$ is a mixed strategy for player i. The set of all mixed strategy profiles is denoted $\Delta = \Delta^1 \times \cdots \times \Delta^n$. The mixed strategy profile with player i removed is $x^{-i} \in \Delta^{-i}$.

Note:

- If we play a strategy with probability 1, then it is a **pure strategy** (this is the way we play previously).
- As convention for this course, we use s's to represent pure strategies, x's to represent mixed strategies.

Example:
In matching pennies, if we order the pure strategies in the order H, T, then we had $x^1 = (x_H^1, x_T^1) = (\frac{1}{3}, \frac{2}{3})$, $x^2 = (x_H^2, x_T^2) = (\frac{3}{4}, \frac{1}{4})$ as mixed strategies. The strategy profile is $x = (x^1, x^2) = \big((\frac{1}{3}, \frac{2}{3}), (\frac{3}{4}, \frac{1}{4})\big)$.

Index