



Folk Theorem and, in particular, at the  
thresholds where cooperation is more  
beneficial than defection in the game of a  
Prisoners' Dilemma.

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# SUMMARY

# ACKNOWLEDGEMENTS

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# Chapter 1

## Introduction

Game Theory is the study of interactive decision making and developing strategies through mathematics ???. It analyses and gives methods for predicting the choices made by players (those making a decision), whilst also suggesting ways to improve their 'outcome' ???. Here, the abstract notion of utility is what the players wish to maximise (see Chapter 2 in ??? for a detailed discussion on the topic of utility theory or Section 1.3 ??? for a more introductory explanation). One of the earliest pioneers of game theory is mathematician, John von Neumann who, along with economist Oskar Morgenstern, published *The Theory of Games and Economic Behaviour* in 1944 ???. This book discusses the theory, developed in 1928 and 1940-41, by von Neumann, regarding "games of strategy" and its applications within the subject of economics ???. Following this, several advancements have been made in the area, including, most notably, John Nash's papers on the consequently named Nash Equilibria in 1950/51 ???. Due to the "context-free mathematical toolbox" ??? nature of this subject, it has been applied to many areas, from Networks (?? and ??) to biology (?? and ??). In this project, the main focus is on a particular class of theorems, within game theory, known as "Folk Theorems" with application to the game of A Prisoner's Dilemma. These will be defined and discussed in the subsequent sections.

### 1.1 An Introduction to Games

Consider the following scenario:

Two convicts have been accused of an illegal act. Each of these prisoners, separately, have to decide whether to reveal information (defect) or stay silent (cooperate). If they both cooperate then the convicts are given a short sentence whereas if they both defect then a medium sentence awaits. However, in the

situation of one cooperation and one defection, the prisoner who cooperated has the consequence of a long term sentence, whilst the other is given a deal. ??

This is one of the standard games in game theory known as A Prisoner's Dilemma which has the following normal form representation:

$$\begin{array}{cc} & \begin{array}{cc} coop & defect \end{array} \\ \begin{array}{c} coop \\ defect \end{array} & \left( \begin{array}{cc} (3, 3) & (0, 5) \\ (5, 0) & (1, 1) \end{array} \right) \end{array}$$

where each cell contains the ordered pair (row player's payoff, column player's payoff). The payoff values are as given in ?? and are used throughout this project.

In general a *normal form* or *strategic form* game is defined by an ordered triple  $G = (N, (S_i)_{i \in N}, (u_i)_{i \in N})$ , where:

- $N = \{1, 2, \dots, n\}$  is a finite set of players;
- $S = S_1 \times S_2 \times \dots \times S_n$  is the set of strategies for all players in which each vector  $(S_i)_{i \in N}$  is the set of strategies for player i

<sup>1</sup>

; and

- $u_i : S \rightarrow \mathbb{R}$  is a payoff function which associates each strategy vector,  $\mathbf{s} = (s_i)_{i \in N}$ , with a utility <sup>2</sup>  $u_i(i \in N)$ .

??

Before continuing the discussion into the key notions of game theory, it needs to be highlighted that there is an important assumption, which is central to most studies of game theory, entitled *Common Knowledge of Rationality*. This, more formally, is an infinite list of statements which claim:

- The players are rational;
- All players know that the other players are rational;
- All players know that the other players know that they are rational; etc.

Assuming Common Knowledge of Rationality allows for the prediction of rational behaviour through a process entitled *rationalisation* ?? (see section 4.5 in ?? for

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<sup>1</sup>Since the game of A Prisoner's Dilemma has a finite strategy set for each player  $S_i = \{\text{cooperate, defect}\}(i \in N)$ , in this project only finite strategy spaces are considered.

<sup>2</sup>'Utility' is referred to as a player's 'payoff' throughout this report.

an alternative explanation of this assumption).



## Chapter 2

### Initial Investigation

There exist three algorithms for computing the Nash Equilibria of a game: Support Enumeration, Vertex Enumeration and Lemke Howson algorithm. Thus, firstly an exploration into the properties and execution times was needed to verify which algorithm would be the most appropriate. This investigation, along with a description of each algorithm (in the two-player case), is detailed in the next few sections.

#### 2.1 Support Enumeration Algorithm

For a non-degenerate two player game

$$G = (2, (S_i)_{i=1,2}, (u_i)_{i=1,2})$$

, the following algorithm yields all Nash equilibria:

- For all  $1 \leq k \leq \min(|S_1|, |S_2|)$ ,
- and each  $I, J \subset S_1, S_2$ , respectively, with  $|I| = |J| = k$ ,
- solve  $\sum_{i \in I} \sigma_i b_{i,j} = v$ ,  $\sum_{j \in J} a_{i,j} \sigma_j = v$  for all  $j \in J$ ,  $i \in I$  respectively
- such that  $\sum_{i \in I} \sigma_i = 1$  and  $\sum_{j \in J} \sigma_j = 1$  with  $\sigma_i, \sigma_j \geq 0$
- and the best response condition in section ?? is satisfied.

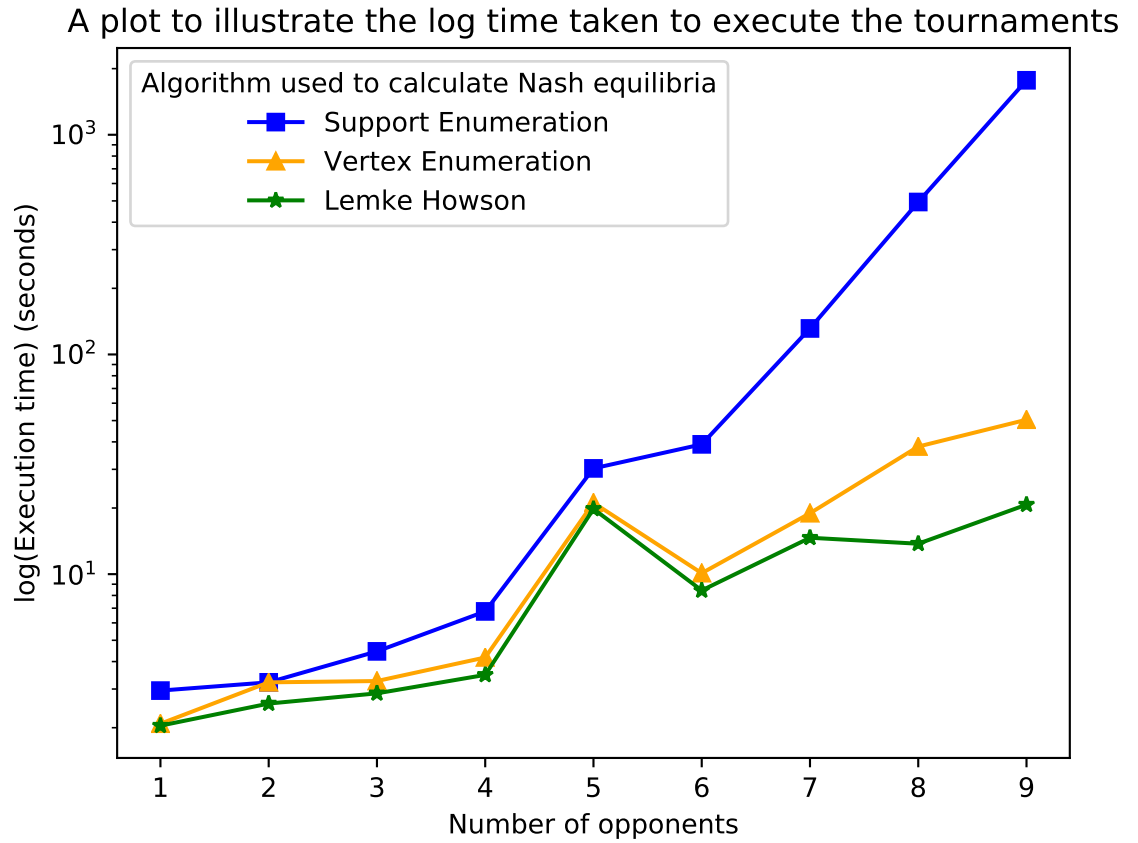


Figure 2.1: A graph to show the results of the timed experiments for each of the three stated algorithms.

## 2.2 Vertex Enumeration Algorithm

## 2.3 Lemke Howson Algorithm

## 2.4 Execution Times

The code used to obtain the results in this section can be found in Appendix ...

From figure ??, it can be seen that until the Defector has five opponents, each algorithm has approximately the same running time.

After this, as the number of opponents increases it is clear that the support enumeration algorithm blows up significantly quicker exponentially in comparison to both the Vertex Enumeration and Lemke Howson algorithm. The latter two algorithms seem to have a similar execution time until the number of opponents reaches eight and nine. This is when the Vertex Enumeration algorithm's

execution time starts to grow faster than the Lemke Howson algorithm.

## Appendix A

### APPENDIX A TITLE

## Appendix B

### APPENDIX B TITLE