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An Introductory Course on Mathematical Game Theory

Julio González-Díaz
Ignacio García-Jurado
M. Gloria Fiestras-Janeiro

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Contents

Preface	xi
Chapter 1. Introduction to Decision Theory	1
§1.1. Preliminaries	1
§1.2. Ordinal Utility	3
§1.3. Linear Utility	6
Chapter 2. Strategic Games	13
§2.1. Introduction to Strategic Games	13
§2.2. Nash Equilibrium in Strategic Games	18
§2.3. Two-Player Zero-Sum Games	24
§2.4. Mixed Strategies in Finite Games	28
§2.5. Bimatrix Games	31
§2.6. Matrix Games	37
§2.7. Algorithms for Matrix Games	43
§2.8. Matrix Games and Linear Programming	52
§2.9. Refinements of Nash Equilibrium in Finite Games	59
§2.10. A Basic Model of Knowledge	72
§2.11. Correlated Equilibrium	75
§2.12. On the Epistemic Foundations of the Different Solution Concepts for Strategic Games	80

§2.13. Fixed-Point Theorems	87
§2.14. On Extreme Points and Convex Sets: Krein-Milman Theorem	91
Exercises of Chapter 2	94
Chapter 3. Extensive Games	99
§3.1. Introduction to Extensive Games	99
§3.2. Strategies in Extensive Games: Mixed Strategies vs. Behavior Strategies	104
§3.3. Nash Equilibrium in Extensive Games	110
§3.4. Subgame Perfect Equilibrium	117
§3.5. Sequential Equilibrium	124
§3.6. Further Refinements	132
§3.7. Repeated Games	146
Exercises of Chapter 3	159
Chapter 4. Games with Incomplete Information	163
§4.1. Incomplete Information: Introduction and Modeling	163
§4.2. Bayesian Games and Bayesian Nash Equilibrium	165
§4.3. The Chain Store Paradox in Perspective	171
§4.4. A First Application of Bayesian Games: Auctions	178
§4.5. A Second Application of Bayesian Games: Mechanism Design and the Revelation Principle	186
§4.6. Extensive Games with Incomplete Information: Multistage Games and Perfect Bayesian Equilibrium	190
§4.7. An Outline of Harsanyi's Approach	197
Exercises of Chapter 4	200
Chapter 5. Cooperative Games	203
§5.1. Introduction to Cooperative Games	203
§5.2. Nontransferable Utility Games	204
§5.3. Bargaining	206
§5.4. Transferable Utility Games	214
§5.5. The Core and Related Concepts	217
§5.6. The Shapley Value	226

§5.7. The Nucleolus	231
§5.8. Convex Games	235
§5.9. Noncooperative Models in Cooperative Game Theory: Implementation Theory	238
§5.10. Airport Problems and Airport Games	256
§5.11. Bankruptcy Problems and Bankruptcy Games	261
§5.12. Voting Problems and Voting Games: Power Indices	270
§5.13. Cooperation in Operations Research Models	275
Exercises of Chapter 5	289
Bibliography	293
Notations	309
Index of Authors	311
Index of Solution Concepts	315
Subject Index	317

Preface

This is a mathematical book on game theory and, thus, starts with a definition of game theory. This introduction also provides some preliminary considerations about this field, which mainly lies in the boundary between mathematics and economics. Remarkably, in recent years, the interest for game theory has grown in utterly disparate disciplines such as psychology, computer science, biology, and political science.

A definition of game theory. Game theory is the mathematical theory of interactive decision situations. These situations are characterized by the following elements: (a) there is a group of agents, (b) each agent has to make a decision, (c) an outcome results as a function of the decisions of all agents, and (d) each agent has his own preferences on the set of possible outcomes. Robert J. Aumann, one of the most active researchers in the field, said in an interview with Hart (2005): “game theory is optimal decision making in the presence of others with different objectives”.

A particular collection of interactive decision situations are the so-called parlor games. Game theory borrows the terminology used in parlor games to designate the various elements that are involved in interactive decision situations: the situations themselves are called *games*, the agents are called *players*, their available decisions are called *strategies*, etc.

Classical game theory is an ideal normative theory, in the sense that it prescribes, for every particular game, how rational players should behave. By rational player we mean one who (a) knows what he wants, (b) has the only objective of getting what he wants, and (c) is able to identify the strategies that best fit his objective. More recently, a normative game theory for bounded-rational players and even a pure descriptive game theory

have been developed. However, this book lies mostly inside the borders of classical game theory.

Noncooperative and cooperative models. Game theory is concerned with both noncooperative and cooperative models. The differences between these two types of models are explained, for instance, in van Damme and Furth (2002). They state that “noncooperative models assume that all the possibilities for cooperation have been included as formal moves in the game, while cooperative models are ‘incomplete’ and allow players to act outside of the detailed rules that have been specified”. Another view comes from Serrano (2008): “One clear advantage of the (noncooperative) approach is that it is able to model how specific details of the interaction may impact the final outcome. One limitation, however, is that its predictions may be highly sensitive to those details. For this reason it is worth also analyzing more abstract approaches that attempt to obtain conclusions that are independent of such details. The cooperative approach is one such attempt”. The necessity of cooperative models has been perceived by game theorists since the very beginning because in some situations the cooperation mechanisms are too complex as to be fully described by a mathematical model. Thus, cooperative game theory deals with coalitions and allocations, and considers groups of players willing to allocate the joint benefits derived from their cooperation (however it takes place). On the other hand, noncooperative game theory deals with strategies and payoffs, and considers players willing to use the strategies that maximize their individual payoffs.

Some stepping stones in the history of game theory. Most likely, the first important precursor of game theory was Antoine Augustin Cournot and his analysis of duopoly published in 1838. In Cournot (1838), the author studied a concept very close to Nash equilibrium for a duopoly model. At the beginning of the 20th century, some important mathematicians like Zermelo and Borel became interested in parlor games and in two-player zero-sum games.

However, the first important result of game theory was the minimax theorem proved by Hungarian mathematician John von Neumann in 1928. Some years later, von Neumann came back to interactive decision situations when he met the Austrian economist Oskar Morgenstern in Princeton. In 1944 they published their famous book, “The Theory of Games and Economic Behavior”, which is considered to be the seminal work of game theory. Since then, game theory has advanced as a result of the cooperation between mathematicians and economists.

In 1950, John Nash published his first paper on the equilibrium concept. Nowadays, Nash equilibrium and, in general, equilibrium theory, which started from that concept, play a central role in the development of social sciences and, especially, of economic theory. In 1994, John Nash, John Harsanyi and Reinhard Selten were awarded the Nobel Prize in Economics “for their pioneering analysis of equilibria in the theory of noncooperative games”. More recently, other game theorists have also received this award. In 2005 the prize was awarded to Robert Aumann and Thomas Schelling “for having enhanced our understanding of conflict and cooperation through game-theory analysis”. In 2007 the prize went to L. Hurwicz, E. Maskin, and R. Myerson “for having laid the foundations of mechanism design theory” (through game theory). These awards illustrate the role of game theory as the main mathematical tool to analyze social interactions, where economics is the major field of application. This interaction between mathematics and social sciences continuously produces challenging problems for the scientific community.

In 1999, the Game Theory Society (GTS) was created to promote the research, teaching, and application of game theory. On its web site, the GTS provides resources related to game theory such as software tools, journals, and conferences. Periodically, the GTS organizes a world conference on game theory; the first one was held in Bilbao (Spain) in 2000.

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The authors maintain a web page that will be periodically updated to include the corrections of typos and other errors that we may be aware of. The web page is hosted by the AMS at: www.ams.org/bookpages/gsm-115/. In this respect, we appreciate any comments from our readers to improve this book. You may contact us via email at julio.gonzalez@usc.es.

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Notations

We do not pretend to provide a comprehensive list of all the notations used in this book. We just intend to provide a brief reference list containing those notations that might be unclear to some readers and also those conventions that are not completely standard.

\mathbb{N}	The set of natural numbers $\{1, 2, \dots\}$
$B \subset A$	Set B is a subset of A (possibly equal)
$B \subsetneq A$	Set B is a subset of A and B is not equal to A
$ A $	The number of elements of set A
$\text{conv}(A)$	The convex hull of set A , <i>i.e.</i> , $\text{conv}(A) := \{\sum_{i=1}^k \alpha_i x_i : k \in \mathbb{N}, x_i \in A, \alpha_i \in \mathbb{R}, \alpha_i \geq 0,$ and $\sum_{i=1}^k \alpha_i = 1\}$
$\text{ext}(A)$	The extreme points of set A , <i>i.e.</i> , $\text{ext}(A) := \{x \in A : \text{for each pair } y, z \in A \text{ and each}$ $\alpha \in (0, 1), x = \alpha y + (1 - \alpha)z \text{ implies } x = y = z\}$
2^A	The set of all subsets of set A
B^A	Maps from the set A to the set B
ΔA	$\{x \in [0, 1]^A : \{a \in A : x(a) > 0\} < \infty \text{ and}$ $\sum_{a \in A} x(a) = 1\}$
$ \mathcal{A} $	The determinant of matrix \mathcal{A}
\mathcal{A}^t	The transpose of matrix \mathcal{A}
I_m	The identity $m \times m$ matrix
$\mathbb{1}_m$	The vector $(1, \dots, 1) \in \mathbb{R}^m$
$\mathbb{E}(X)$	The expectation of random variable X
$\mathbb{E}(X Y)$	The expectation of variable X conditional on Y
$P(A)$	The probability of event A
$P(A B)$	The probability of event A conditional on event B

$\{x^k\}$	Abbreviation for $\{x^k\}_{k \in \mathbb{N}}$
$\{x^k\} \rightarrow x$	Abbreviation for $\lim_{k \rightarrow \infty} \{x^k\} = x$
$\operatorname{argmin}_{x \in \Omega} f(x)$	The set $\{y \in \Omega : f(y) = \min_{x \in \Omega} f(x)\}$
Let $a, b \in \mathbb{R}^n$:	
$a \geq b$	For each $i \in \{1, \dots, n\}$, $a_i \geq b_i$
$a > b$	For each $i \in \{1, \dots, n\}$, $a_i > b_i$
(a_{-i}, b_i)	The vector $(a_1, \dots, a_{i-1}, b_i, a_{i+1}, \dots, a_n)$

Index of Authors

A

Aarts, H., 233
Abreu, D., 158
Allais, M., 11
Asheim, G. B., 121
Aumann, R. J., xi, xiii, 40, 70, 73–76, 80, 82, 83,
87, 100, 121, 147, 150, 206, 217, 261, 263,
265, 269
Axelrod, R., 153

B

Baker, M. J., 256, 257
Banzhaf, J. F., 270, 273
Battigalli, P., 100, 196
Baye, M. R., 186
Bazaraa, M. S., 52, 57
Ben-Porath, E., 121
Benoît, J. P., 155, 157, 265
Bernheim, B. D., 85
Bertrand, J., 95
Binmore, K., 100, 241
Blackwell, D., 124
Bondareva, O., 221
Border, K. C., 87
Borel, E., xii
Borm, P., 206, 233, 276, 282, 286
Brandenburger, A., 83, 87, 200
Brânzei, R., 261
Brouwer, L., 89

C

Cesco, J. C., 62, 145
Chae, S., 241
Chen, Y. C., 198
Chiu, Y. S., 251
Cho, I. K., 144

Chun, Y., 229
Coleman, J., 274
Cournot, A. A., xii, 15, 145
Curiel, I., 267, 275, 279

D

Dantzig, G. B., 52
Dasgupta, A., 251
Davenport, W. C., 42
de Frutos, M. A., 269
de Vries, C. G., 186
Deegan, J., 275
Dekel, E., 83, 87, 164, 198, 200
Deutsch, M., 36
Di Tillio, A., 198
Dubey, P., 271–273, 279
Dufwenberg, M., 121
Dutta, P. K., 158

E

Ely, J. C., 164, 198
Engel, M. C., 277
Evans, R. A., 251

F

Faigle, U., 233
Faingold, E., 198
Farkas, B., 53
Felsenthal, D. S., 275
Fiestras-Janeiro, M. G., 286
Fishburn, P., 11
Ford, L. R., 280
French, S., 11
Fudenberg, D., 129, 132, 148, 150, 156, 164,
187, 191–194, 196, 198
Fulkerson, D. R., 280

Furth, D., xii

G

García-Jurado, I., 62, 145, 261, 276, 282, 286
 Gillies, D. B., 217, 218
 González-Díaz, J., 158, 238
 González-Pimienta, J. C., 151
 Gossner, O., 148, 157
 Green, J. R., 1, 11, 128, 187
 Gul, F., 73, 251

H

Halpern, J. Y., 75
 Hamers, H., 276
 Harsanyi, J., xiii, 70, 72, 163, 190, 198, 200, 289
 Hart, O., 251
 Hart, S., xi, 40, 206, 229, 251
 Heiding, H., 206
 Hendrickx, R., 276
 Hillas, J., 144
 Holler, M. J., 275
 Howson, J. T., 32
 Hurwicz, L., xiii, 187

I

Ichiishi, T., 87, 236
 Iñarra, E., 261

J

Jansen, M. J. M., 71
 Jarvis, J. J., 52, 57
 Jia-He, J., 72, 240
 Johnston, R. J., 275

K

Kakutani, S., 21, 87, 90
 Kalai, E., 72, 206, 210–212, 225, 276, 279, 281
 Kandori, M., 148
 Kern, W., 233
 Khmelnitskaya, A., 275
 Knaster, B., 89
 Kohlberg, E., 18, 72, 131, 143, 144
 Kopelowitz, A., 233
 Kovenock, D., 186
 Krein, M., 47, 91, 93
 Kreps, D. M., 1, 9, 11, 115, 125, 128, 129, 135,
 153, 171, 172, 178
 Krishna, V., 155, 157, 179, 186, 241
 Kuhn, H. W., 53, 103, 107
 Kuipers, J., 233
 Kuratowski, C., 89

L

Laffont, J. J., 187
 Laruelle, A., 270, 272, 274, 275
 Lemke, C. E., 32
 Litan, C. M., 151

Littlechild, S. C., 256–258

M

Machover, M., 275
 Mailath, G. J., 124, 144, 147
 Mas-Colell, A., 1, 11, 128, 187, 229, 251
 Maschler, M., 217, 233, 261, 263, 265, 267, 269
 Maskin, E., xiii, 148, 150, 156, 187
 Maynard Smith, J., 201
 Mazurkiewicz, S., 89
 McKelvey, R. D., 121
 McLean, R. P., 206
 McLennan, A., 87
 Meca, A., 276, 282, 286
 Méndez-Naya, L., 62, 145
 Menezes, F. M., 179
 Mertens, J. F., 72, 73, 131, 143, 144, 150, 200
 Milgrom, P., 171, 185
 Milman, D., 47, 91, 93
 Monderer, D., 198
 Monteiro, P. K., 179
 Moore, J., 251
 Moretti, S., 231
 Morgenstern, O., xii, 9, 217
 Morris, S., 164, 198
 Mosquera, M. A., 286
 Mosquera, M.A., 286
 Moulin, H., 249
 Mutuswami, S., 251
 Myerson, R. B., xiii, 66, 67, 159, 185, 187, 243,
 245

N

Nash, J., xiii, 18, 27, 30, 163, 206, 207, 209, 238,
 239
 Nowak, A., 275

O

O'Neill, B., 261–263
 Okada, A., 70
 Olszewski, W., 150
 Oortwijn, S., 206
 Osborne, M., 29, 99, 123, 124, 147
 Owen, G., 38, 52, 205, 256, 257, 276

P

Packel, E. W., 275
 Palacios-Huerta, I., 40–42, 120, 121
 Palfrey, T. R., 121
 Pareto, V., 207
 Parthasarathy, T., 32
 Patrone, F., 231
 Pearce, D. G., 84, 85, 100
 Peleg, B., 203, 206, 233
 Pérez-Castrillo, D., 251
 Peski, M., 164, 198
 Peters, H., 214

Polak, B., 83
Potters, J. A. M., 277

Q

Quant, M., 233

R

Raghavan, T. E. S., 32
Raiffa, H., 211
Reijnierse, J. H., 233, 277
Reny, P. J., 121
Riley, J. G., 185
Roberts, J., 171
Rosen, J. B., 23
Rosenthal, R., 120, 172
Roth, A., 213
Rubinstein, A., 13, 29, 75, 86, 99, 123, 124, 145,
147, 198, 241

S

Samet, D., 72, 198, 206, 279
Samuelson, L., 124, 144, 147
Samuelson, W., 185
Sánchez-Rodríguez, E., 238
Schelling, T. C., xiii, 80
Schmeidler, D., 217, 231
Selten, R., xiii, 61, 99, 103, 104, 109, 115, 117,
132, 137, 153, 160, 163, 172
Serrano, R., 238, 241, 249, 251
Shapley, L. S., 47, 147, 217, 221, 226, 227, 231,
233, 235, 236, 238, 270, 273, 279
Sherali, H. D., 52, 57
Shubik, M., 270, 279
Simon, L. K., 62, 67, 145
Siniscalchi, M., 100
Smale, S., 153
Smith, L., 157, 158
Smorodinsky, M., 211, 212
Snijders, C., 231
Snow, R. N., 47
Sobel, J., 144
Solymosi, T., 233
Sorin, S., 150
Sperner, E., 88
Stähl, I., 241
Stinchcombe, M. B., 62, 67, 145
Straffin, P. D., 36, 42, 101
Sudhölter, P., 203, 206
Swinkels, J. M., 144

T

Tersine, R., 283
Thompson, G., 256, 257
Thomson, W., 213, 261, 262, 269
Tijs, S., 206, 217, 261, 267
Timmer, J., 276, 282

Tirole, J., 129, 132, 187, 191–194, 196
Tourky, R., 87
Tucker, A. W., 53

V

Valenciano, F., 270, 272, 274, 275
van Damme, E., xii, 61, 64, 71, 139, 142–144,
239, 241
van den Brink, R., 229
van den Nouweland, A., 261
van Gellekom, J. R. G., 277
van Velzen, B., 233
Vázquez-Brage, M., 261
Vermeulen, A. J., 71
Vickrey, W., 185, 186
Vidal-Puga, J., 251
Volij, O., 42, 120, 121
von Neumann, J., xii, 9, 24, 27, 38, 217, 222
von Stackelberg, H., 145

W

Weber, R. J., 185, 227, 236
Wen, Q., 158
Wen-Tsun, W., 72, 240
Wettstein, D., 251
Whinston, M. D., 1, 11, 128, 187
Wilson, R., 115, 125, 128, 129, 135, 153, 171,
172, 178
Winter, E., 231, 251
Wolinsky, A., 241

X

Xiong, S., 198

Y

Yang, J. A., 241
Young, H. P., 229, 269

Z

Zamir, S., 73, 150, 200
Zarzuolo, J. M., 261
Zemel, E., 225, 276, 279, 281
Zermelo, E., xii
Zorn, M., 94

Index of Solution Concepts

Boldface page numbers are used to indicate the pages where the concepts are defined.

AIRPORT PROBLEMS AND AIRPORT GAMES

nucleolus, 258
sequential allocation scheme, 257
Shapley value, 258

BANKRUPTCY PROBLEMS AND BANKRUPTCY GAMES

constrained equal awards rule, **263**
constrained equal losses rule, **263**
nucleolus, **265**
proportional rule, **264**
random arrival rule, **263**
Shapley value, **265**
Talmud rule, **264**

BARGAINING PROBLEMS

egalitarian solution, 211
Kalai-Smorodinsky solution, **212**
Nash solution, **208**

BAYESIAN GAMES, *see* INCOMPLETE INFORMATION GAMES

EXTENSIVE GAMES

limit behavior profile induced by a proper equilibrium, **142**
Nash equilibrium, **110**
perfect Bayesian equilibrium, 128
perfect equilibrium, **134**
proper equilibrium, **139**
sequential equilibrium, **129**

subgame perfect equilibrium, **117**
trembling hand perfect equilibrium, *see* perfect equilibrium
weak perfect Bayesian equilibrium, **126**

INCOMPLETE INFORMATION GAMES

Bayesian Nash equilibrium, **169**
perfect Bayesian equilibrium, **194**
sequential equilibrium, 173, 194

INVENTORY PROBLEMS AND INVENTORY GAMES

core, 286
share the ordering cost rule (SOC rule), **285**

LINEAR PRODUCTION PROBLEMS AND LINEAR PRODUCTION GAMES

core, 277
Owen set, **277**

MAXIMUM FLOW PROBLEMS AND MAXIMUM FLOW GAMES

core, 282

POWER INDICES

Banzhaf index, **274**
normalized, **273**
"raw", **273**
Shapley-Shubik index, **271**

STRATEGIC GAMES

B-essential equilibrium, **240**

correlated equilibrium, 72, 76
essential equilibrium, 240
Nash equilibrium, 18
optimal strategy, 25
perfect equilibrium, 61
 equivalent definitions, 63
proper equilibrium, 67
quasi-strict equilibrium, 70
rationalizable strategy profile, 85
strict equilibrium, 70
strictly perfect equilibrium, 70
strong equilibrium, 70
subjective correlated equilibrium, 76
trembling hand perfect equilibrium, *see*
 perfect equilibrium
undominated Nash equilibrium, 64

TRANSFERABLE UTILITY GAMES

core, 218
D-core, 218
equal division rule, 229
nucleolus, 232
set of imputations, 218
Shapley value, 227
Weber set, 227

VOTING PROBLEMS, *see* POWER INDICES

Subject Index

Boldface page numbers are used to indicate the pages where the concepts are defined.

Numbers

0-1-normalized TU-game, **223**

see also zero-normalized TU-game

A

addition of dominated strategies, 66, 68

addition of “irrelevant” actions, 132, 135, 137, 140, 142

additive TU-game, **216**

additivity, **226**, 228

agent strategic game, 137

agreeing to disagree, 74

airport game, **256**

airport problem, **256**

algorithm to compute the nucleolus, *see* Kopelowitz algorithm

algorithms for matrix games, 43

geometric construction, 43

submatrices method, 45, **50**

all-pay auction, 186

Allais paradox, 11

allocation

coalitionally rational, **218**

efficient, **217**

feasible, **205**

imputation, 218

in a mechanism design problem, 187

in an NTU-game, **205**

individually rational, **217**

Pareto efficient, 207

allocation rule

in a bankruptcy problem, *see* division rule

in a bankruptcy problem

in a bargaining problem, **207**

in a TU-game, **226**

in an NTU-game, 206

properties, *see* properties of allocation rules

see also Index of Solution Concepts

allocation scheme in a mechanism design problem, 187

alternating offers game, **242**

altruism, 121

anonymity, **227**

see also symmetric allocation rule in a TU-game

anonymity in inventory games, **287**

ascending auction, 181

aspiration, *see* utopia point

assessment, **126**

consistent, **129**

consistent *vs.* reasonable, 195

reasonable, **193**

sequentially rational, **126**

weakly consistent, **126**

auction, **16**

ascending, *see* English ascending

descending, *see* Dutch descending

Dutch descending, 181

English ascending, 181

first-price, **16**, 20, 95

incomplete information, 179

first-price, **180**

second-price, **180**

revenue equivalence principle, 185

sealed-bid, 180

second-price, **16**, 20, 95

axiomatic characterizations

Banzhaf index, 274

Kalai-Smorodinsky solution, 213
 Nash solution, 209
 “raw” Banzhaf index, 273
 Shapley value, 228
 Shapley-Shubik index, 272
 share the ordering cost rule (SOC rule), 287

B

B-essential equilibrium, **240**
 backward induction, 119
 in the centipede game, 120
 in the repeated chain store game, 153
 in the repeated prisoner’s dilemma, 121
 backward induction and rationality, 121
 balanced family, **221**
 balanced TU-game, **221**
 totally balanced, **221**
 balancing coefficients, **221**
 banker game, **205**
 bankruptcy game, **262**
 bankruptcy problem, **262**
 Banzhaf index, **274**
 axiomatic characterization, 274
 see also “raw” Banzhaf index and
 normalized Banzhaf index
 Banzhaf total power property, 274
 bargaining problem, **206**
 battle of the sexes game, **32**, 75
 Bayes rule whenever possible, 128, 190, 193
 Bayesian game, **166**, 199
 extensive game representation, 168
 Bayesian Nash equilibrium, **169**
 Bayesian payoff function, 167
 first-price auction, **180**
 mechanism, **188**
 second-price auction, **180**
 Bayesian updating, 81, 125, 166
 behavior strategy, **105**
 Bayesian game, **169**
 behavior *vs.* mixed strategies, 105–109
 Kuhn theorem, 108
 belief mappings, 199
 beliefs, 73, 125
 Bayesian updating, 81, 125, 166
 first order, 197
 hierarchies, 197
 second order, 197
 see also system of beliefs
 Bertrand duopoly, 95
 best reply, 116, 126
 extensive game, **110**
 strategic game, 19, **21**
 bimatrix game, **32**
 binary relation, **1**
 binding agreements, 14, 204, 214
 Bondareva-Shapley theorem, 221

Bondareva-Shapley theorem and minimax
 theorem, 223
 bounded rationality, 13, 198
 Brouwer fixed-point theorem, 89

C

card game, 103, 112
 cardinal utility, 10
 see also linear utility
 centipede game, 99, **120**
 chain store game, **115**, 118
 repeated, **153**
 chain store paradox, **153**
 incomplete information, 171
 characteristic function of a TU-game, **214**
 characterizations, *see* axiomatic
 characterizations
 chicken game, 79
 choice, 101
 choice partition, **101**
 claim problem, *see* bankruptcy problem
 claimant in a bankruptcy problem, 262
 coalition, 203
 coalitional rationality, **218**
 common knowledge, **74**, 80
 coordinated attack game, **74**
 common knowledge of rationality, 83, 121
 common prior, 73, 82, 165
 full support, 170
 completely mixed behavior strategy, **129**
 completely mixed strategy, **31**
 comprehensive set, **204**
 consistency of a division rule, 268
 consistent assessment, **129**
 consistent assessment *vs.* reasonable
 assessment, 195
 consistent strategy, *see* *I*-consistent strategy
 constant-sum game, *see* two-player
 constant-sum game
 constrained equal awards rule, **263**
 constrained equal losses rule, **263**
 convex games, 235
 coordinated attack game, **74**
 core
 D-core, 218
 core allocation, **218**
 core of a TU-game, **218**
 correlated equilibrium, **72**, **76**
 correlated strategy profile, **75**
 correspondence, **21**
 Cournot oligopoly, **15**, 18
 see also Stackelberg duopoly
 covariance with positive affine
 transformations, **208**, 209, 213
 credible threats in repeated games, 156
 cut in a maximum flow problem, **280**

minimum cut, 280

D

D-core, 218
 decision maker, 1
 decision problem, 2
 demand in a bankruptcy problem, 262
 descending auction, 181
 direct mechanism, 188
 disagreement point, 206
 discount factor, 148
 discounted payoffs, 147, 149
 divide a million game, 215, 219, 229
 see also divide-the-dollar game
 divide-the-dollar game, 243
 see also divide a million game
 dividends, *see* Harsanyi dividends
 division rule in a bankruptcy problem, 261,
 see Index of Solution Concepts, 263
 dominated imputation, 218
 dominated strategy, 63
 addition of, 66, 68
 dual linear programming problem, 52
 duality theorem, 55, 223
 Dutch descending auction, 181
 dynamic game, *see* extensive game

E

economic order quantity inventory model, *see*
 inventory problem
 efficient allocation, 217
 see also Pareto efficiency
 efficient allocation rule in a TU-game, 226,
 228, 272, 287
 egalitarian solution, 211
 electronic mail game, 198
 elimination of strictly dominated strategies,
 85
 English ascending auction, 181
 epistemic foundations, 80–87, 99, 164
 equal division rule, 229
 equal treatment of equals, *see* symmetric
 allocation rule in a TU-game
 equilibrium concepts, *see* Index of Solution
 Concepts
 equilibrium refinements
 extensive games, 132–144
 strategic games, 59–72
 equivalent strategies, 106
 equivalent TU-games, *see* *S*-equivalent
 TU-games
 essential equilibrium, 240
 estate in a bankruptcy problem, 262
 excess of a coalition, 231
 existence results

Bayesian games, *see* incomplete
 information games
 extensive games
 Nash equilibrium, 111
 perfect equilibrium, 138
 proper equilibrium, 139
 sequential equilibrium, 130
 subgame perfect equilibrium, 119
 incomplete information games
 Bayesian Nash equilibrium, 170
 perfect Bayesian equilibrium, 194
 strategic games
 correlated equilibrium, 78
 minimax theorem, 38
 Nash equilibrium, 23, 30
 perfect equilibrium, 62
 proper equilibrium, 68
 rationalizable strategy profile, 86
 undominated Nash equilibrium, 65
 value of a matrix game, *see* minimax
 theorem
 expected utility, 10
 see also linear utility
 extensive game, 100
 incomplete information, 190
 perfect and imperfect information, 103
 perfect and imperfect recall, 104
 extensive game representation of a Bayesian
 game, 168

F

F-scale example, 35
 Farkas lemma, 53
 feasible allocation, 205
 feasible payoff vector in a repeated game, 148
 feasible set in a bargaining problem, 206
 feasible solution in a linear programming
 problem, 52
 finite strategic game, 28
 finite two-player strategic game, 31
 first order beliefs, 197
 first-price auction, 16, 20, 95
 incomplete information, 180
 fixed-point theorems
 Brouwer, 89
 Kakutani, 21, 90
 flow, *see* maximum flow problem
 folk theorems, 154–158
 finite horizon
 Nash equilibrium, 155
 subgame perfect equilibrium, 157
 infinite horizon
 Nash equilibrium, 154
 subgame perfect equilibrium, 156
 forward induction, 131, 144

G

game tree, **100**
 glove game, **215, 219, 230, 271**
 grand coalition, **203**

H

Harsanyi dividends, **289**
 Harsanyi's approach to incomplete information games, **163, 165, 198**
 hawk-dove game, **79**
 hierarchies of beliefs, **197**
 history
 in a multistage game with incomplete information, **192**
 in a repeated game, **149**
 in the repeated chain store game with incomplete information, **173**

I

I-consistent strategy, **75, 81**
 immunity to coalitional manipulation, **286, 287**
 impatient players, **149, 242**
 see also discounted payoffs
 imperfect information, **103, 163**
 imperfect recall, **104**
 implementation, **238**
 Kalai-Smorodinsky solution, **249**
 Nash solution
 Nash's static game, **239**
 Rubinstein's alternating offers game, **241**
 Shapley value, **251**
 imputation, **218**
 dominated or undominated, **218**
 imputations set, *see* set of imputations
 incomplete information game, **163**
 Harsanyi's approach, **163, 165, 198**
 see also Bayesian game
 incomplete information *vs.* imperfect information, **163**
 incredible threat, **115**
 independence of irrelevant alternatives, **208, 209**
 individual monotonicity, **212, 213**
 individually rational allocation, **217**
 individually rational payoff vector, **152**
 infinite extensive games
 stackelberg duopoly, **145**
 see also repeated games
 information extraction, *see* mechanism design problem
 information model, **72, 81**
 information partition, **73, 100**
 information set, **101**
 instigation game, **34**
 interdependent valuations, **185**

inventory game, **285**
 inventory problem, **283**
 see also ordering cost problem
 iterative elimination of strictly dominated strategies, **85**

K

Kakutani fixed-point theorem, **21, 90**
 Kalai-Smorodinsky solution, **212**
 axiomatic characterization, **213**
 implementation, **249**
 Knaster-Kuratowski-Mazurkiewicz theorem, **89**
 knowledge model, **72**
 Kopelowitz algorithm, **234**
 Krein-Milman theorem, **47, 93**
 Kuhn theorem, **108**
 Kuhn-Tucker optimality conditions, **53**

L

lexicographic order, **3, 231**
 limit behavior profile induced by a proper equilibrium, **142**
 linear production game, **277**
 linear production games and maximum flow games, **282**
 linear production games and totally balanced games, **279**
 linear production problem, **276**
 linear programming game, **279**
 linear programming problem, **52**
 dual problem, **52**
 feasible solution, **52**
 optimal solution, **52**
 see also nucleolus and Kopelowitz algorithm
 linear utility, **6**
 lottery, **9, 29, 105**

M

market game, **279**
 marketing game, **101, 112, 113**
 matching pennies game, **20, 26, 29**
 matrix game, **37**
 examples, **40–42**
 relevant row or column, **57**
 solve, **43**
 symmetric, **57**
 maximum flow game, **281**
 maximum flow games and linear production games, **282**
 maximum flow games and totally balanced games, **282**
 maximum flow problem, **279**
 maximum game, **225**
 mechanism, **188**

direct, 188
 truthful equilibrium, 188
 mechanism design problem, 186
 revelation principle, 189
 messages in a mechanism design problem,
 188
 minimal winning coalition, **220**
 minimax payoff vector, **148**
 minimax theorem, 38, 223
 minimax theorem and Bondareva-Shapley
 theorem, 223
 minimum cut in a maximum flow problem,
 280
 minimum game, 225
 mixed *vs.* behavior strategies, 105–109
 Kuhn theorem, 108
 mixed extension, **30**
 mixed strategy
 Bayesian game, **169**
 extensive game, **105**
 strategic game, 29, **30**
 monotonic TU-game, **216**
 zero-monotonic, **217**
 monotonicity of an allocation rule, *see*
 individual monotonicity
 multiple object auction, 186
 Multistage game with incomplete
 information, 191

N

Nash equilibrium
 extensive game, **110**
 repeated game, **150**
 strategic game, **18**
 undominated, **64**
 Nash folk theorem
 finite horizon, 155
 infinite horizon, 154
 Nash program, *see* implementation
 Nash solution, **208**
 axiomatic characterization, 209
 implementation
 Nash's static game, 239
 Rubinstein's alternating offers game, 241
 Nash theorem, 23, 30
 nature and nature moves, 100
 network flow, *see* maximum flow problem
 no advantageous merging or splitting, **268**
 noncooperative implementation, *see*
 implementation
 nontransferable utility game, *see* NTU-game
 normal form game, *see* strategic game
 normalized Banzhaf index, **273**
 see also Banzhaf index and "raw" Banzhaf
 index
 NTU-game, **204**
 banker game, **205**

nucleolus, **232**
 computing via Kopelowitz algorithm, 234
 in a bankruptcy game, **265**
 in an airport game, 258
 null player, **226**
 null player property, **226**, 228, 272–274
 numéraire good, 214

O

objective expected utility, 10
 see also linear utility
 one shot deviation principle, 123
 open auction, 180
 operations research models, 276
 optimal solution in a linear programming
 problem, **52**
 optimal strategy, **25**
 optimality conditions, *see* Kuhn-Tucker
 optimality conditions
 ordering cost problem, **285**
 see also inventory problem
 ordinal utility, 6
 Owen set, 277
 ownership function in a maximum flow
 problem, 280

P

paradox
 Allais, 11
 chain store, **153**
 Pareto domination, **207**
 Pareto efficiency, **207**, 209, 213
 see also efficient allocation
 Parliament of Aragón game, **215**, 220, 230,
 271, 274
 path of a strategy in a repeated game, 149
 payoff equivalent strategies, **107**
 payoff function, 13
 Bayesian game, **167**
 extensive game, **101**, **105**
 repeated game, 147, **149**
 strategic game, **14**
 mixed extension, **30**
 see also utility function
 perfect Bayesian equilibrium, 128, **194**
 perfect Bayesian equilibrium *vs.* sequential
 equilibrium, 194
 perfect equilibrium
 extensive games, **134**
 agent strategic game, 137
 strategic games, **61**
 equivalent definitions, 63
 perfect information, **103**
 perfect monitoring, 147
 perfect recall, **104**
 pivot player in a simple game, **274**

player partition, **100**
 power index, 215, 270
 see also Index of Solution Concepts
 preference relation, 1, 14, 205
 lexicographic, *see* lexicographic order
 representable, 3
 prior belief, 73
 common prior, 73
 prisoner's dilemma game, 14, 18
 repeated, **152**
 production process, *see* linear production
 problem
 proper equilibrium
 extensive games, 139
 limit behavior profile, **142**
 strategic games, 67
 properties of allocation rules
 in a bankruptcy problem (division rules)
 consistency, **268**
 no advantageous merging or splitting,
 268
 in a bargaining problem
 covariance with positive affine
 transformations, **208**, 209, 213
 independence of irrelevant alternatives,
 208, 209
 individual monotonicity, **212**, 213
 Pareto efficiency, **207**, 209, 213
 symmetry, **207**, 209, 213
 in a simple game
 transfer, **272**, 273, 274
 in a TU-game
 additivity, **226**, 228
 efficiency, **226**, 228, 272, 287
 null player property, **226**, 228, 272–274
 symmetry, **226**, 228, 272–274
 in an inventory game
 immunity to coalitional manipulation,
 286, 287
 proportional rule, **264**
 public randomization, 148, 150
 punishments in repeated games, 156
 pure best reply, **31**
 pure strategy
 Bayesian game, **167**
 extensive game, **105**
 strategic game, 14, 29

Q

quasi-strict equilibrium, 70

R

random arrival rule, **263**
 rationality, 13, **82**
 bounded, 13, 198
 rationality and backward induction, 121

rationalizability, 85
 rationalizable strategy, **85**
 "raw" Banzhaf index, **273**
 axiomatic characterization, 273
 see also Banzhaf index and normalized
 Banzhaf index
 realization equivalent strategies, **107**
 reasonable assessment, **193**
 reasonable assessment *vs.* consistent
 assessment, 195
 refinements, *see* equilibrium refinements
 repeated chain store game, **153**
 incomplete information, 171
 repeated game, **148**
 folk theorems, 154–158
 repeated prisoner's dilemma, **152**
 incomplete information, 171
 reputation, 154, 174
 reservation payoff in a mechanism design
 problem, 187
 revelation principle, 189
 revenue equivalence principle, 185
 reward in repeated games, 156
 rock, paper, scissors game, 95
 Rubinstein's alternating offers game, **242**

S

S-equivalent TU-games, **223**
 sealed-bid auction, 180
 second order beliefs, 197
 second-price auction, 16, 20, 95
 incomplete information, **180**
 Security Council voting game, **270**, 275
 self-enforcing strategy profile, 60
 separating hyperplane theorem, 93
 separation theorems, 92–93
 sequential allocation scheme in airport
 problems, 257
 see also Shapley value in airport problems
 sequential equilibrium, **129**, 173
 repeated game, 151
 sequential equilibrium *vs.* perfect Bayesian
 equilibrium, 194
 sequential rationality, **126**
 set of imputations, **218**
 Shapley value, **227**
 as a power index, *see* Shapley-Shubik index
 axiomatic characterization, 228
 implementation, 251
 in a bankruptcy game, **265**
 in an airport game, 258
 Shapley-Shubik index, 271
 axiomatic characterization, 272
 share the ordering cost rule (SOC rule), **285**
 axiomatic characterization, 287
 simple game, **219**, 270

weighted majority, 270
see also power indices and voting problems
 solution concepts, *see* Index of Solution
 Concepts
 solve a matrix game, 43
 Sperner labelling, 88
 Sperner lemma, 88
 Stackelberg duopoly, 145
 stage game, 147, 148
 state of the world, 73, 81, 164, 166
 static game, *see* strategic game
 strategic game, 13, 14
 associated with an extensive game, 105
 incomplete information, *see* Bayesian game
 mixed extension, 30
 strategy
 assessment, 126
 behavior, 105
 Bayesian game, 169
 completely mixed, 31
 completely mixed behavior strategy, 129
 correlated profile, 75
 dominated, 63
 addition of, 66, 68
 equivalent, 106
 I-consistent, 75, 81
 mixed, 30
 Bayesian game, 169
 extensive game, 105
 strategic game, 29
 support, 31
 optimal, 25
 payoff equivalent, 107
 pure
 Bayesian game, 167
 extensive game, 105
 strategic game, 14, 29
 rationalizable, 85
 realization equivalent, 107
 repeated game, 149
 strictly dominated, 83
 undominated, 64
 strict equilibrium, 70
 strictly determined game, 25
 strictly dominated strategy, 83
 strictly perfect equilibrium, 70
 strong equilibrium, 70
 subgame, 117
 subgame perfect equilibrium, 117
 repeated game, 151
 subgame perfect folk theorem
 finite horizon, 157
 infinite horizon, 156
 subjective correlated equilibrium, 76
 submatrices method, 45, 50
 superadditive TU-game, 216
 weakly, 216

support of a mixed strategy, 31
 support property in a TU-game, 228, 272
 supporting hyperplane theorem, 93
 swing in a simple game, 273
 symmetric allocation rule in a bargaining
 problem, 207, 209, 213
 symmetric allocation rule in a TU-game, 226,
 228, 272–274
 symmetric matrix game, 57
 system of beliefs, 125

T

Talmud bankruptcy problems, 261, 264
 Talmud rule, 264
 totally balanced games and linear production
 games, 279
 totally balanced games and maximum flow
 games, 282
 totally balanced TU-game, 221
 transfer property in a simple game, 272, 273,
 274
 transferable utility game, *see* TU-game
 tree, *see* game tree
 tremble
 extensive games, 133
 strategic games, 61
 trembling hand perfect equilibrium, *see*
 perfect equilibrium
 trigger strategy, 156
 truncated demands, 267
 truthful equilibrium, 188
 TU-game, 214
 0-1-normalized game, 223
 additive, 216
 balanced, 221
 convex, 235
 monotonic, 216
 simple, 219, 270
 weighted majority, 270
 superadditive, 216
 totally balanced, 221
 weakly superadditive, 216
 zero-monotonic, 217
 zero-normalized, 217
 two-player constant-sum game, 28
 two-player zero-sum game, 24
 see also matrix game
 type, 165, 166, 199
 type-space, 165, 199

U

ultimatum game, 243
 unanimity game, 228, 228
 undiscounted payoffs, 149
 undominated imputation, 218
 undominated Nash equilibrium, 64

undominated strategy, **64**
unilateral deviation, **18**
United Nations Security Council voting
 game, **270, 275**
updating, *see* Bayesian updating
utility function, **3, 101**
 see also payoff function and von Neumann
 and Morgenstern utility function
utopia point, **212**

V

value of a zero-sum game, **25**
vector of marginal contributions, **227**
veto player, **220**
visiting professor game, **215, 220, 230, 236**
von Neumann and Morgenstern utility
 function, **9, 30, 101, 105, 166, 207**
 see also linear utility
voting game, **270**
 see also simple game
voting problem, **270**

W

war of attrition, **201**
weak perfect Bayesian equilibrium, **126**
weakly consistent assessment, **126**
weakly superadditive TU-game, **216**
 see also superadditive TU-game
Weber set, **227**
weighted majority game, **270**
winning coalition, **220**
 minimal, **220**
worth of a coalition, **214**

Z

zero-monotonic TU-game, **217**
zero-normalized TU-game, **217**
 see also 0-1-normalized TU-game
zero-sum game, *see* two-player zero-sum
 game

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