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10 August 2010

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Abstract

In the field of mechanism design, the revelation principle has been known for decades. Myerson, Mas-Colell, Whinston and Green gave formal proofs of the revelation principle respectively. However, in this paper, I argue that there are bugs hidden in their proofs.

JEL codes: D7

Key words: Revelation principle; Mechanism design; Implementation theory.

The revelation principle is well-known in the economics literature. See Page 884, Line 24 [1]: "*The implication of the revelation principle is ... to identify the set of implementable social choice functions, we need only identify those that are truthfully implementable.*" But, in this paper I will argue that there are bugs in the proofs given by Mas-Colell, Whinston and Green [1] and Myerson [2] respectively. Coincidentally, the bugs are relevant to the same word "*imply*". Related definitions and proofs are given in Appendices, which are cited from Section 8.E, 23.B and 23.D [1] and Ref. [2]. Two remarks are added in Appendix 1 and 3 respectively.

1 The bug in the proof by Mas-Colell, Whinston and Green

Here, the notation is referred to Ref. [1]. See the proof of Proposition 23.D.1: "... Condition (23.D.2) *implies* that for all i and all $\theta_i \in \Theta_i$,...". To derive formula (23.D.3), the term "$\hat{s}_i$" ($\forall \hat{s}_i \in S_i$, $i = 1, \cdots, I$) in formula (23.D.2) is replaced

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by "$s_i^*(\hat{\theta}_i)$" ($\forall \hat{\theta}_i \in \Theta_i$, $i = 1, \cdots, I$). Since formula (23.D.2) holds for all $\hat{s}_i \in S_i$, it looks reasonable to do so at first sight.

However, as formula (23.D.2) specifies, the expectation is taken over realizations of the other players' random types conditional on player i's *realized* type θ_i (also see Proposition 8.E.1). Note that the input of the function $s_i^*(\cdot)$ should be a realized type of player i (see Remark 1), but none of $\hat{\theta}_i$ ($\forall \hat{\theta}_i \in \Theta_i$, $\hat{\theta}_i \neq \theta_i$) can be such realized type since agent i's type has been realized as θ_i. Therefore, in formula (23.D.3), the term "$s_i^*(\hat{\theta}_i)$" ($\forall \hat{\theta}_i \in \Theta_i$, $\hat{\theta}_i \neq \theta_i$) is actually *illegal.* Put differently, formula (23.D.3) is illegal. That is the bug.

2 The bug in the proof by Myerson

Here, the notation is referred to Ref. [2]. See the proof of Theorem 2: "... Furthermore, the equilibrium inequalities (14) for π *imply* the incentive compatible inequalities (6) for π'...". Let us consider the right part of the incentive compatible inequalities (6) for π'. For all i, $a_i \in A_i$, $b_i \in A_i$,

$$\begin{aligned} Z_i(\pi', b_i|a_i) &= \sum_{\alpha \in A_1 \times \cdots \times A_n} \sum_{c \in C} P_i(\alpha|a_i)\pi'(c|\alpha_{-i}, b_i)U_i(c, \alpha) \\ &= \sum_{\alpha \in A_1 \times \cdots \times A_n} \sum_{s \in S_1 \times \cdots \times S_n} \sum_{c \in C} P_i(\alpha|a_i) \cdot \pi(c|s) \\ &\qquad \cdot [\prod_{j=1, j\neq i}^{n} \sigma_j(s_j|\alpha_j) \times \sigma_i(s_i|b_i)] \cdot U_i(c, \alpha) \end{aligned}$$

As specified in the left term "$Z_i(\pi', b_i|a_i)$", agent i's type is realized as a_i. Therefore, according to Remark 2, the term "$\sigma_i(s_i|b_i)$" (for all $b_i \in A_i$, $b_i \neq a_i$) is actually *illegal.* Put differently, the incentive compatible inequalities (6) for π' is illegal. That is the bug.

Appendix 1: Definitions and proof in Section 8.E [1]

According to page 255 [1], formally, in a Bayesian game, each player i has a payoff function $u_i(s_i, s_{-i}, \theta_i)$, where $\theta_i \in \Theta_i$ is a random variable chosen by nature that is observed only by player i. The joint probability distribution of the θ_i's is given by $F(\theta_1, \cdots, \theta_I)$, which is assumed to be common knowledge among the players. Letting $\Theta = \Theta_1 \times \cdots \times \Theta_I$, a Bayesian game is summarized by $[I, \{S_i\}, \{u_i(\cdot)\}, \Theta, F(\cdot)]$.

A pure strategy for player i in a Bayesian game is a function $s_i(\theta_i)$, or *decision rule*, that gives the player's strategy choice for each *realization* of his type

θ_i. Player i's pure strategy set $\mathscr{S}_i$ is therefore the set of all such functions. Player i's expected payoff given a profile of pure strategies for the I players $(s_1(\cdot), \cdots, s_I(\cdot))$ is then given by:

$$\widetilde{u}_i(s_1(\cdot), \cdots, s_I(\cdot)) = E_\theta[u_i(s_1(\theta_1), \cdots, s_I(\theta_I), \theta_i)], \qquad (8.E.1)$$

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Remark 1: Following page 148 [3], the timing of a static Bayesian game is as follows:
Step 1: Nature chooses a type vector $\theta = (\bar{\theta}_1, \cdots, \bar{\theta}_I)$, where $\bar{\theta}_i$ is the *realized* type of agent i;
Step 2: Nature reveals $\bar{\theta}_i$ to player i but not to any other player;
Step 3: The players simultaneously output $(s_1(\bar{\theta}_1), \cdots, s_I(\bar{\theta}_I))$;
Step 4: Each player i receives the payoff $u_i(s_1(\bar{\theta}_1), \cdots, s_I(\bar{\theta}_I), \bar{\theta}_i)$.

For each player $i = 1, \cdots, I$, consider his strategy function $s_i(\cdot)$, then:
1) $s_i(\cdot)$ is chosen (or controlled) by player i, and is his private information;
2) In a static Bayesian game, player i's type can be realized as any element of Θ_i. The realized type of player i is his private information;
3) The input of $s_i(\cdot)$ must be a *realized* type $\bar{\theta}_i$ in Θ_i, and the output of $s_i(\cdot)$ is $s_i(\bar{\theta}_i)$ which is observable to the outside agent (either principal or mediator).
4) Suppose player i's type has been realized as $\bar{\theta}_i$ in Step 1, then in Step 3, it is illegal to let player i output $s_i(\theta_i)$ for any $\theta_i \in \Theta_i$, $\theta_i \neq \bar{\theta}_i$.
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Definition 8.E.1: A (pure strategy) *Bayesian Nash equilibrium* for the Bayesian game $[I, \{S_i\}, \{u_i(\cdot)\}, \Theta, F(\cdot)]$ is a profile of decision rules $(s_1(\cdot), \cdots, s_I(\cdot))$ that constitutes a Nash equilibrium of game $\Gamma_N = [I, \{\mathscr{S}\}, \{\widetilde{u}_i(\cdot)\}]$. That is, for every $i = 1, \cdots, I$,

$$\widetilde{u}_i(s_i(\cdot), s_{-i}(\cdot)) \geq \widetilde{u}_i(s_i'(\cdot), s_{-i}(\cdot))$$

for all $s_i'(\cdot) \in \mathscr{S}_i$, where $\widetilde{u}_i(s_i(\cdot), s_{-i}(\cdot))$ is defined as in Eq(8.E.1).

A very useful point to note is that in a (pure strategy) Bayesian Nash equilibrium each player must be playing a best response to the conditional distribution of his opponents' strategies *for each type that he might end up having.* Proposition 8.E.1 provides a more formal statement of this point.

Proposition 8.E.1: A profile of decision rules $(s_1(\cdot), \cdots, s_I(\cdot))$ is a Bayesian Nash equilibrium in Bayesian game $[I, \{S_i\}, \{u_i(\cdot)\}, \Theta, F(\cdot)]$ if and only if, for all i and all $\bar{\theta}_i \in \Theta_i$ occurring with positive probability,

$$E_{\theta_{-i}}[u_i(s_i(\bar{\theta}_i), s_{-i}(\theta_{-i}), \bar{\theta}_i)|\bar{\theta}_i)] \geq E_{\theta_{-i}}[u_i(s_i', s_{-i}(\theta_{-i}), \bar{\theta}_i)|\bar{\theta}_i)], \qquad (8.E.2)$$

for all $s_i' \in S_i$, where the expectation is taken over realizations of the other players' random variables conditional on player i's *realization* of his signal $\bar{\theta}_i$.

Proof: For necessity, note that if Eq(8.E.2) did not hold for some player i for some $\bar{\theta}_i \in \Theta_i$ that occurs with positive probability, then player i could do better by changing his strategy choice in the event he gets realization $\bar{\theta}_i$, contradicting $(s_1(\cdot), \cdots, s_I(\cdot))$ being a Bayesian Nash equilibrium. In the other direction, if condition Eq(8.E.2) holds for all $\bar{\theta}_i \in \Theta_i$ occurring with positive probability, then player i cannot improve on the payoff he receives by playing strategy $s_i(\cdot)$. $\square$

Appendix 2: Definitions and proof in Section 23.B and 23.D [1]

(P858) Consider a setting with I agents, indexed by $i = 1, \cdots, I$. These agents make a collective choice from some set X of possible alternatives. Prior to the choice, each agent i privately observes his type θ_i that determines his preferences. The set of possible types for agent i is denoted as Θ_i. The vector of agents' types $\theta = (\theta_1, \cdots, \theta_I)$ is drawn from set $\Theta = \Theta_1 \times \cdots \times \Theta_I$ according to probability density $\phi(\cdot)$. Each agent i's Bernoulli utility function when he is of type θ_i is $u_i(x, \theta_i)$.

Definition 23.B.1: A social choice function is a function $f : \Theta_1 \times \cdots \times \Theta_I \rightarrow X$ that, for each possible profile of the agents' types $(\theta_1, \cdots, \theta_I)$, assigns a collective choice $f(\theta_1, \cdots, \theta_I) \in X$.

Definition 23.B.3: A mechanism $\Gamma = (S_1, \cdots, S_I, g(\cdot))$ is a collection of I strategy sets $S_1, \cdots, S_I$ and an outcome function $g : S_1 \times \cdots \times S_I \rightarrow X$.

Definition 23.B.4: The mechanism $\Gamma = (S_1, \cdots, S_I, g(\cdot))$ implements social choice function $f(\cdot)$ if there is an equilibrium strategy profile $(s_1^*(\cdot), \cdots, s_I^*(\cdot))$ of the game induced by Γ such that $g(s_1^*(\theta_1), \cdots, s_I^*(\theta_I)) = f(\theta_1, \cdots, \theta_I)$ for all $(\theta_1, \cdots, \theta_I) \in \Theta_1, \cdots, \Theta_I$.

Definition 23.B.5: A direct revelation mechanism is a mechanism in which $S_i = \Theta_i$ for all i and $g(\theta) = f(\theta)$ for all $\theta \in \Theta_1 \times \cdots \times \Theta_I$.

Definition 23.B.6: The social choice function $f(\cdot)$ is truthfully implementable (or incentive compatible) if the direct revelation mechanism $\Gamma = (S_1, \cdots, S_I, f(\cdot))$ has an equilibrium $(s_1^*(\cdot), \cdots, s_I^*(\cdot))$ in which $s_i^*(\theta_i) = \theta_i$ for all $\theta_i \in \Theta_i$ and all $i = 1, \cdots, I$; that is, if truth telling by each agent i constitutes an equilibrium of $\Gamma = (S_1, \cdots, S_I, f(\cdot))$.

Definition 23.D.1: The strategy profile $s^*(\cdot) = (s_1^*(\cdot), \cdots, s_I^*(\cdot))$ is a *Bayesian Nash equilibrium* of mechanism $\Gamma = (S_1, \cdots, S_I, g(\cdot))$ if, for all i and all

$\theta_i \in \Theta_i$,

$$E_{\theta_{-i}}[u_i(g(s_i^*(\theta_i), s_{-i}^*(\theta_{-i})), \theta_i)|\theta_i] \geq E_{\theta_{-i}}[u_i(g(\hat{s}_i, s_{-i}^*(\theta_{-i})), \theta_i)|\theta_i]$$

for all $\hat{s}_i \in S_i$.

Definition 23.D.2: The mechanism $\Gamma = (S_1, \cdots, S_I, g(\cdot))$ implements the social choice function $f(\cdot)$ in Bayesian Nash equilibrium if there is a Bayesian Nash equilibrium of Γ, $s^*(\cdot) = (s_1^*(\cdot), \cdots, s_I^*(\cdot))$, such that $g(s^*(\theta)) = f(\theta)$ for all $\theta \in \Theta$.

Definition 23.D.3: The social choice function $f(\cdot)$ is truthfully implementable in Bayesian Nash equilibrium if $s_i^*(\theta_i) = \theta_i$ (for all $\theta_i \in \Theta_i$ and $i = 1, \cdots, I$) is a Bayesian Nash equilibrium of the direct revelation mechanism $\Gamma = (\Theta_1, \cdots, \Theta_I, f(\cdot))$. That is, if for all $i = 1, \cdots, I$ and all $\theta_i \in \Theta_i$,

$$E_{\theta_{-i}}[u_i(f(\theta_i, \theta_{-i})), \theta_i)|\theta_i] \geq E_{\theta_{-i}}[u_i(f(\hat{\theta}_i, \theta_{-i}), \theta_i)|\theta_i], \qquad (23.D.1)$$

for all $\hat{\theta}_i \in \Theta_i$.

Proposition 23.D.1 (*The Revelation Principle for Bayesian Nash Equilibrium*) Suppose that there exists a mechanism $\Gamma = (S_1, \cdots, S_I, g(\cdot))$ that implements the social choice function $f(\cdot)$ in Bayesian Nash equilibrium. Then $f(\cdot)$ is truthfully implementable in Bayesian Nash equilibrium.

Proof: Since $\Gamma = (S_1, \cdots, S_I, g(\cdot))$ implements $f(\cdot)$ in Bayesian Nash equilibrium, then there exists a profile of strategies $s^*(\cdot) = (s_1^*(\cdot), \cdots, s_I^*(\cdot))$ such that $g(s^*(\theta)) = f(\theta)$ for all θ, and for all i and all $\theta_i \in \Theta_i$,

$$E_{\theta_{-i}}[u_i(g(s_i^*(\theta_i), s_{-i}^*(\theta_{-i})), \theta_i)|\theta_i] \geq E_{\theta_{-i}}[u_i(g(\hat{s}_i, s_{-i}^*(\theta_{-i})), \theta_i)|\theta_i], \qquad (23.D.2)$$

for all $\hat{s}_i \in S_i$. Condition (23.D.2) implies that for all i and all $\theta_i \in \Theta_i$,

$$E_{\theta_{-i}}[u_i(g(s_i^*(\theta_i), s_{-i}^*(\theta_{-i})), \theta_i)|\theta_i] \geq E_{\theta_{-i}}[u_i(g(s_i^*(\hat{\theta}_i), s_{-i}^*(\theta_{-i})), \theta_i)|\theta_i], \quad (23.D.3)$$

for all $\hat{\theta}_i \in \Theta_i$. Since $g(s^*(\theta)) = f(\theta)$ for all θ, (23.D.3) means that, for all i and all $\theta_i \in \Theta_i$,

$$E_{\theta_{-i}}[u_i(f(\theta_i, \theta_{-i}), \theta_i)|\theta_i] \geq E_{\theta_{-i}}[u_i(f(\hat{\theta}_i, \theta_{-i}), \theta_i)|\theta_i], \qquad (23.D.4)$$

for all $\hat{\theta}_i \in \Theta_i$. But, this is precisely condition (23.D.1), the condition for $f(\cdot)$ to be truthfully implementable in Bayesian Nash equilibrium. Q.E.D.

Appendix 3: Definitions and proof in Ref. [2]

The arbitrator's problem is described by a *Bayesian collective choice problem*, an object of the form:

$$(C, A_1, A_2, \cdots, A_n, U_1, U_2, \cdots, U_n, P), \tag{1}$$

The individual members of the group, or *players*, are numbered $1, 2, \cdots, n$. C is the set of choices available to the group. For each player i, A_i is the set of possible *types* for player i. Each $U_i : C \times A_1 \times \cdots \times A_n \mapsto \mathbb{R}$ is a utility function such that each $U_i(c, a_1, \cdots, a_n)$ is the payoff which player i would get if $c \in C$ were chosen and if $(a_1, \cdots, a_n)$ were the true vector of player types. P is a probability distribution on $A_1 \times \cdots \times A_n$ such that $P(a_1, \cdots, a_n)$ is the probability, as judged by the arbitrator, that $(a_1, \cdots, a_n)$ is the true vector of types for the n players.

For some collection of *response sets* $S_1, \cdots, S_n$, a *choice mechanism* is defined as a real-valued function π with a domain of the form $C \times (S_1 \times \cdots \times S_n)$ such that:

$$\sum_{c' \in C} \pi(c'|s_1, \cdots, s_n) = 1, \text{ and } \pi(c|s_1, \cdots, s_n) \geq 0 \text{ for all } c, \tag{2}$$

for every $(s_1, \cdots, s_n) \in S_1 \times \cdots \times S_n$.

Given a choice mechanism π, for any player i and for any $a_i \in A_i$ and $b_i \in A_i$, let:

$$Z_i(\pi, b_i|a_i) = \sum_{\alpha \in A_1 \times \cdots \times A_n} \sum_{c \in C} P_i(\alpha|a_i) \pi(c|\alpha_{-i}, b_i) U_i(c, \alpha), \tag{5}$$

where $(\alpha_{-i}, b_i) = (\alpha_1, \cdots, \alpha_{i-1}, b_i, \alpha_{i+1}, \cdots, \alpha_n)$, $P_i(\alpha|a_i) = 0$ if $\alpha_i \neq a_i$. $Z_i(\pi, b_i|a_i)$ is the conditionally-expected utility payoff for player i, given that his type is a_i, if he says that his type is b_i when π is the choice mechanism and when all other players are expected to tell the truth.

A choice mechanism π using the standard response sets is said to be *Bayesian incentive compatible* if

$$Z_i(\pi, a_i|a_i) \geq Z_i(\pi, b_i|a_i), \text{ for all } i, a_i \in A_i, b_i \in A_i, \tag{6}$$

If choice mechanism π is used and if everyone is honest, then player i's conditionally-expected payoff when he knows a_i is:

$$V_i(\pi|a_i) = Z_i(\pi, a_i|a_i), \tag{7}$$

The allocation of conditionally-expected payoffs associated with mechanism π

is the vector:

$$\mathbf{V}(\pi) = (((V_i(\pi|a_i))_{a_i \in A_i})_{i=1}^n). \tag{8}$$

This is a vector of $\sum_{i=1}^n |A_i|$ real numbers, indexed on the disjoint union of the A_i sets. If the arbitrator could use any choice mechanism and expect honest responses, then we would define the *feasible set* of expected allocation vectors to be:

$$F = \{\mathbf{V}(\pi) : \pi \text{ is a choice mechanism}\}.$$

The set of *incentive-feasible* expected allocation vectors is defined to be:

$$F^* = \{\mathbf{V}(\pi) : \pi \text{ is Bayesian incentive compatible}\}.$$

A *response plan* for player i is a function σ_i mapping each type $a_i \in A_i$ onto a probability distribution over his response set S_i. That is, if σ_i is player i's response plan, then $\sigma_i(s_i|a_i)$ is the probability that player i will tell the arbitrator s_i if his *true* type is a_i.

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Remark 2: Like Remark 1, I list the timing of a static Bayesian game as follows:
Step 1: Nature chooses a type vector $(\bar{a}_1, \cdots, \bar{a}_n)$, where $\bar{a}_i$ is the *realized* type of agent i;
Step 2: Nature reveals $\bar{a}_i$ to player i but not to any other player;
Step 3: Player i tells his response s_i to the arbitrator according to the probability $\sigma_i(s_i|\bar{a}_i)$. All players tell the arbitrator simultaneously.
Step 4: The arbitrator assigns choice c to all players according to the probability $\pi(c|s_1, \cdots, s_n)$.
Step 5: Each player i receives the payoff $U_i(c, \bar{a}_1, \cdots, \bar{a}_n)$.

For each player $i = 1, \cdots, n$, consider his response plan $\sigma_i(s_i|\cdot)$, then:
1) $\sigma_i(s_i|\cdot)$ is chosen (or controlled) by player i, and is his private information;
2) In a static Bayesian game, player i's type can be realized as any element of A_i. The realized type of player i is his private information;
3) The input of $\sigma_i(s_i|\cdot)$ must be a *realized* type $\bar{a}_i$ in A_i, and the output of $\sigma_i(s_i|\cdot)$ is the probability that player i will tell the arbitrator s_i if his true type is $\bar{a}_i$.
4) Suppose player i's type has been realized as $\bar{a}_i$ in Step 1, then in Step 3, it is illegal to let player i act using another response plan $\sigma_i(s_i|b_i)$ for any $b_i \in A_i$, $b_i \neq \bar{a}_i$.
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If $(\sigma_1, \cdots, \sigma_n)$ lists the players' response plans for the choice mechanism π, and if player i knows that a_i is his true type, then player i's expected utility payoff is:

$$W_i(\pi, \sigma_1, \cdots, \sigma_n|a_i) = \sum_{\alpha \in A_1 \times \cdots \times A_n} \sum_{s \in S_1 \times \cdots \times S_n} \sum_{c \in C} P_i(\alpha|a_i) \cdot (\prod_{j=1}^{n} \sigma_j(s_j|a_j)) \cdot \pi(c|s) \cdot U_i(c, \alpha). \quad (12)$$

The vector of conditionally-expected payoffs generated by $(\sigma_1, \cdots, \sigma_n)$ is:

$$\mathbf{W}(\pi, \sigma_1, \cdots, \sigma_n) = (((W_i(\pi, \sigma_1, \cdots, \sigma_n|a_i))_{a_i \in A_i})_{i=1}^{n}). \quad (13)$$

This is a vector with $\sum_{i=1}^{n} |A_i|$ components, indexed on the disjoint union of the A_i sets, like the $\mathbf{V}(\pi)$. We say that $(\sigma_1, \cdots, \sigma_n)$ is a *response-plan equilibrium* for the choice mechanism π if, for any player i and type $a_i \in A_i$, for every possible alternative response plan σ'_i for player i:

$$W_i(\pi, \sigma_1, \cdots, \sigma_n|a_i) \geq W_i(\pi, \sigma_1, \cdots, \sigma_{i-1}, \sigma'_i, \sigma_{i+1}, \cdots, \sigma_n|a_i). \quad (14)$$

The set of *equilibrium-feasible* expected allocation vectors is defined to be:

$$F^{**} = \{\mathbf{W}(\pi, \sigma_1, \cdots, \sigma_n) : \pi \text{ is a choice mechanism, and } (\sigma_1, \cdots, \sigma_n) \text{ is a response-plan equilibrium for } \pi\}. \quad (15)$$

Theorem 2: $F^{**} = F^{*}$.
Proof: If $(\sigma_1, \cdots, \sigma_n)$ is a response-plan equilibrium for a mechanism π on $S_1, \cdots, S_n$, then we can define an equivalent choice mechanism π' on $A_1, \cdots, A_n$ by:

$$\pi'(c|\alpha) = \sum_{s \in S_1 \times \cdots \times S_n} \pi(c|s) \cdot (\prod_{i=1}^{n} \sigma_i(s_i|\alpha_i)).$$

It is easy to check that $\mathbf{V}(\pi') = \mathbf{W}(\pi, \sigma_1, \cdots, \sigma_n)$, so that the allocations generated are the same. Furthermore, the equilibrium inequalities (14) for π imply the incentive compatible inequalities (6) for π'. Thus $\mathbf{x} = \mathbf{W}(\pi, \sigma_1, \cdots, \sigma_n) \in F^{**}$ implies $\mathbf{x} = \mathbf{V}(\pi') \in F^{*}$. So $F^{**} \subseteq F^{*}$. I omit the rest of proof. Q.E.D.

Acknowledgments

The author gratefully acknowledges helpful conversations with Dr. Hongtao Zhang. The author is also very grateful to Ms. Fang Chen, Hanyue Wu (*Apple*), Hanxing Wu (*Lily*) and Hanchen Wu (*Cindy*) for their great support.

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