Mechanisms without Money

Motivation 1:
- According to Gibbard-Satterthwaite: In general, nontrivial social choice functions manipulable.
- One way out: Introduction of money (cf. VCG mechanisms)
- Other way out: Restriction of preferences (cf. single-peaked preferences; this chapter)

Motivation 2:
- Introduction of central concept from cooperative game theory: the core

Examples:
- House allocation problem
- Stable matchings

House Allocation Problem

- Definitions
- Top Trading Cycle Algorithm
House Allocation Problem

- **Players** $N = \{1, \ldots, n\}$.
- Each player $i$ owns house $i$.
- Each player $i$ has **strict linear preference order** $\prec_i$ over the set of houses.
  - **Example**: $j \prec_i k$ means player $i$ prefers house $k$ to house $j$.
- **Alternatives** $A$: allocations of houses to players (permutations $\pi \in S_n$ of $N$).
  - **Example**: $\pi(i) = j$ means player $i$ gets house $j$.
- **Objective**: reallocate the houses among the agents “appropriately”.

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**Note on preference relations:**

- **Arbitrary** (strict linear) preference orders $\prec_i$ over houses,
- **but no arbitrary preference orders** $\preceq_i$ over $A$.
- **Rather**: Player $i$ indiffereent between different allocations $\pi_1$ and $\pi_2$ as long as $\pi_1(i) = \pi_2(i)$.
- Indifference denoted as $\pi_1 \equiv \pi_2$.
- If player $i$ is not indifferent: $\pi_1 \preceq \pi_2$ iff $\pi_1 \prec \pi_2$ or $\pi_1 \equiv \pi_2$.

**Notation**: $\pi_1 \preceq \pi_2$ iff $\pi_1 \prec \pi_2$ or $\pi_1 \equiv \pi_2$.

This makes Gibbard-Satterthwaite inapplicable.

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**Important new aspect** of house allocation problem: players control resources to be allocated.

Allocation can be subverted by subset of agents breaking away and trading among themselves.

How to avoid such allocations?

How to make allocation mechanism non-manipulable?
House Allocation Problem

**Intuition:**
A blocking coalition can receive houses everyone from the coalition likes at least as much as under allocation $\pi$, with at least one player being strictly better off, by trading among themselves.

**Definition (core)**
The set of allocations that is not blocked by any subset of agents is called the core.

**Question:** Is the core nonempty?

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Top Trading Cycle Algorithm (TTCA)

**Pseudocode:**

Let $\pi(i) = i$ for all $i \in N$.

while players unaccounted for do
  consider subgraph $G'$ of $G$ where each vertex has only one outgoing arc: the least-colored one from $G$.
  identify cycles in $G'$.
  add corresponding cyclic permutations to $\pi$.
  delete players accounted for and incident edges from $G$.
end while
output $\pi$.

**Notation:**
Let $N_i$ be the set of vertices on cycles identified in iteration $i$.

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**Example:**

- Player 1: $3 \prec_1 1 \prec_1 4 \prec_1 2$
- Player 2: $4 \prec_2 2 \prec_2 3 \prec_2 1$
- Player 3: $3 \prec_3 4 \prec_3 2 \prec_3 1$
- Player 4: $1 \prec_4 4 \prec_4 2 \prec_4 3$

**Corresponding graph:**

- Iteration 1: $\pi(1) = 2, \pi(2) = 1$.  
- Iteration 2: $\pi(3) = 4, \pi(4) = 3$.  
- Done: $\pi(1) = 2, \pi(2) = 1, \pi(3) = 4, \pi(4) = 3$.  

**Algorithm to construct allocation**

- Let $G = (V, A, c)$ be an arc-colored directed graph where:
  - $V = N$ (i.e., one vertex for each player),
  - $A = V \times V$, and
  - $c : A \rightarrow N$ such that $c(i,j) = k$ if house $j$ is player $i$'s $k$th ranked choice according to $\prec_i$.

**Note:** Loops $(i,i)$ are allowed. We treat them as cycles of length 0.
**Top Trading Cycle Algorithm (TTCA)**

**Theorem**
The core of the house allocation problem consists of exactly one matching.

**Proof sketch**
At most one matching: Show that if a matching is in the core, it must be the one returned by the TTCA.

In TTCA, each player in $N_1$ receives his favorite house. Therefore, $N_1$ would form a blocking coalition to any allocation that does not assign to all of those players the houses they would receive in TTCA.

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**3 Stable Matchings**

- **Definitions**
- **Deferred Acceptance Algorithm**
- **Properties**

**Question:** What about manipulability?

**Definition (top trading cycle mechanism)**
The top trading cycle mechanism (TTCM) is the function that, for each profile of preferences, returns the allocation computed by the TTCA.

**Theorem**
The TTCM cannot be manipulated.

**Proof**
Homework.
**Stable Matchings**

**Problem statement:**
- Given disjoint finite sets $M$ of men and $W$ of women.
- Assume WLOG that $|M| = |W|$ (introduce dummy-men/dummy-women).
- Each $m \in M$ has strict preference ordering $\prec_m$ over $W$.
- Each $w \in W$ has strict preference ordering $\prec_w$ over $M$.
- Matching: “appropriate” assignment of men to women such that each man is assigned to at most one woman and vice versa.

**Definitions**
- Stable Matchings
- Deferred Acceptance
- Algorithm
- Properties

**Summary**

**Note:** A group of players can subvert a matching by opting out.

**Definition (stability, blocking pair)**
A matching is called unstable if there are two men $m, m'$ and two women $w, w'$ such that
- $m$ is matched to $w$,
- $m'$ is matched to $w'$, and
- $w \prec_m w'$ and $m' \prec_w m$.
The pair $\langle m, w' \rangle$ is called a blocking pair.
A matching that has no blocking pairs is called stable.

**Definition (core)**
The core of the matching game is the set of all stable matchings.

**Example:**
- Man 1: $w_3 \prec_m w_1 \prec_m w_2$
- Man 2: $w_2 \prec_m w_3 \prec_m w_1$
- Man 3: $w_3 \prec_m w_2 \prec_m w_1$
- Woman 1: $m_2 \prec_w m_3 \prec_w m_1$
- Woman 2: $m_2 \prec_w m_1 \prec_w m_3$
- Woman 3: $m_2 \prec_w m_3 \prec_w m_1$

Two matchings:
- Matching $\{\langle m_1, w_1 \rangle, \langle m_2, w_2 \rangle, \langle m_3, w_3 \rangle\}$ unstable ($\langle m_1, w_2 \rangle$ is a blocking pair)
- Matching $\{\langle m_1, w_1 \rangle, \langle m_3, w_2 \rangle, \langle m_2, w_3 \rangle\}$ stable

**Question:** Is there always a stable matching?

**Answer:** Yes! And it can even be efficiently constructed.

**How?** Deferred acceptance algorithm!
Deferred Acceptance Algorithm

Definition (deferred acceptance algorithm, male proposals)

1. Each man proposes to his top-ranked choice.
2. Each woman who has received at least one proposal (including tentatively kept one from earlier rounds) tentatively keeps top-ranked proposal and rejects rest.
3. If no man is left rejected, stop.
4. Otherwise, each man who has been rejected proposes to his top-ranked choice among the women who have not rejected him. Then, goto 2.

Example:

Man 1: \( w_3 \prec_m w_1 \prec_m w_2 \)
Man 2: \( w_2 \prec_m w_3 \prec_m w_1 \)
Man 3: \( w_3 \prec_m w_2 \prec_m w_1 \)
Woman 1: \( m_2 \prec_w m_3 \prec_w m_1 \)
Woman 2: \( m_2 \prec_w m_1 \prec_w m_3 \)
Woman 3: \( m_2 \prec_w m_3 \prec_w m_1 \)

Deferred acceptance algorithm:

1. \( m_1 \) proposes to \( w_2, m_2 \) to \( w_1 \), and \( m_3 \) to \( w_1 \).
2. \( w_1 \) keeps \( m_3 \) and rejects \( m_2, w_2 \) keeps \( m_1 \).
3. \( m_2 \) now proposes to \( w_3 \).
4. \( w_3 \) keeps \( m_2 \).

Resulting matching: \( \{\langle m_1, w_2 \rangle, \langle m_2, w_3 \rangle, \langle m_3, w_1 \rangle\} \).

Deferred Acceptance Algorithm

Theorem

The deferred acceptance algorithm with male proposals terminates in a stable matching.

Proof

Suppose not.

Then there exists a blocking pair \( \langle m_1, w_1 \rangle \) with \( m_1 \) matched to some \( w_2 \) and \( w_1 \) matched to some \( m_2 \).

Since \( \langle m_1, w_1 \rangle \) is blocking and \( w_2 \prec w_1 \), in the proposal algorithm, \( m_1 \) would have proposed to \( w_1 \) before \( w_2 \).

Since \( m_1 \) was not matched with \( w_1 \) by the algorithm, it must be because \( w_1 \) received a proposal from a man she ranked higher than \( m_1 \). ...
**Deferred Acceptance Algorithm**

### Proof (ctd.)

Since the algorithm matches her to $m_2$ it follows that $m_1 \prec_w m_2$.

This contradicts the fact that $\langle m_1, w_1 \rangle$ is a blocking pair. □

Analogous version where the women propose: outcome would also be a stable matching.

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**Deferred Acceptance Algorithm**

### Definition (optimality)

A matching $\mu$ is **male-optimal** if there is no stable matching $\nu$ such that $\mu(m) \prec_m \nu(m)$ or $\mu(m) = \nu(m)$ for all $m \in M$ and $\mu(m) \prec_m \nu(m)$ for at least one $m \in M$. **Female-optimal:** similar.

### Theorem

- The stable matching produced by the (fe)male-proposal deferred acceptance algorithm is (fe)male-optimal.
- In general, there is no stable matching that is male-optimal and female-optimal. □

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**Deferred Acceptance Algorithm**

### Theorem

The mechanism associated with the (fe)male-proposal algorithm cannot be manipulated by the (fe)males. □

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**4 Summary**

Denote a matching by $\mu$. The woman assigned to man $m$ in $\mu$ is $\mu(m)$, and the man assigned to woman $w$ is $\mu(w)$.

The stable matching produced by the (fe)male-proposal deferred acceptance algorithm is (fe)male-optimal.

In general, there is no stable matching that is male-optimal and female-optimal. □
Avoid Gibbard-Satterthwaite by restricting domain of preferences.

House allocation problem:
- Solved using top trading cycle algorithm.
- Algorithm finds unique solution in the core, where no blocking coalition of players has an incentive to break away.
- The top trading cycle mechanism cannot be manipulated.

Stable matchings:
- Solved using deferred acceptance algorithm.
- Algorithm finds a stable matching in the core, where no blocking pair of players has an incentive to break away.
- The mechanism associated with the (fe)male-proposal algorithm cannot be manipulated by the (fe)males.