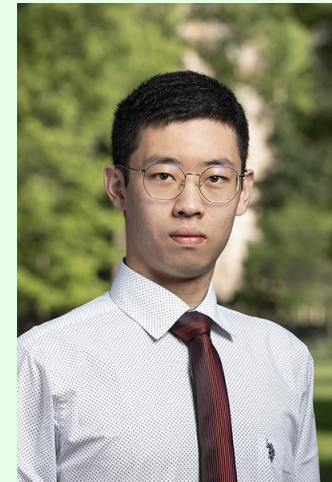


COMPSCI 323 (=ECON 336): Computational Microeconomics

Instructor: Vincent Conitzer
conitzer@cs.duke.edu

<https://www2.cs.duke.edu/courses/spring20/compsci323d/>
TAs: [Hyoungh-Yoon Kim](#), [Caspar Oesterheld](#), and [Jiali Xing](#)



CS-ECON@DUKE

Exploring the Intersection of Computer Science and Economics

[Home](#)

[Schedule](#)

[Past Talks](#)

[People](#)

[Mini-retreat](#)

[Reading Group](#)

Who Are We?

We are a group of Duke University faculty, postdocs, and students interested in the intersection of computer science and economics (and the social sciences more broadly) and the impact of this interplay on decisions in information technology and digital business. This includes applying techniques from computer science and optimization to economics -- for example, using computation to design market clearing mechanisms and to implement efficient allocation and pricing in them -- as well as applying techniques from economics to computer science -- for example, designing incentives for users of networked computer systems and social networks.

Contacts

For organizational questions about the seminar series:

- [Yuan Deng](#)
- [Catherine Moon](#)

For other matters, contact the relevant faculty member(s):

- [Atila Abdulkadiroglu](#) (Econ)
- [Vincent Conitzer](#) (CS)



CS-Econ Talks

- [Upcoming Talks](#)
- [Past Talks](#)

Related Seminars

- [AI Group](#) (CS)
- [Algorithms Seminar](#) (CS)
- [Decision Sciences Seminar](#) (Fuqua)
- [Duke Robotics, Intelligence, and Vision \(DRIV\) Seminar](#) (CS)

▶ For Prospective Students

▼ Degree Programs

▶ M.A. Economics

▶ M.A. Analytical Political
Economy

M.S. Economics &
Computation

M.S. Quantitative Financial
Economics

▶ For Current Students

▶ EcoTeach: Student Services
Center

M.A. Program Assistant

[Addie Stagg](#)

M.S. Economics & Computation

The joint field of economics and computer science has emerged from two converging intellectual needs: Computer science has become increasingly important for economists working with big data to address complex questions. Students interested in learning about computational mechanism design with applications to economics are ideal candidates for this program. Students whose interest is more generally focused on data analytics across a broad range of fields may also be interested in Duke's [Master of Quantitative Management](#) (MQM) program, offered at the Fuqua School of Business, and/or Duke's new [Master in Interdisciplinary Data Science](#) (MIDS) program, which is accepting its first class in Fall 2018.

The MSEC program combines the strengths of the Departments of Economics and [Computer Science](#) to educate students in these important computational skills linked to economics, and to prepare them for Ph.D. studies or careers in economics, finance, government, and business. Reflecting this strong interdisciplinary relationship, Duke University [ranks No. 4 for research in economics and computation](#), according to CSRankings.org.

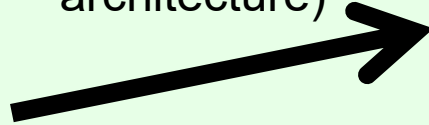
This program is designed to meet the needs of students with varied levels of exposure to either field, but a strong quantitative background is recommended.

History



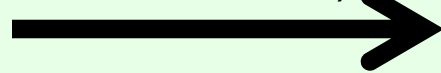
John von Neumann

computer architecture
(von Neumann
architecture)



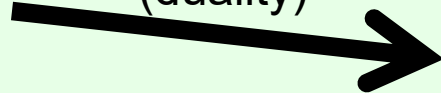
***Computer Science
& Engineering***

game theory
(minimax theorem)

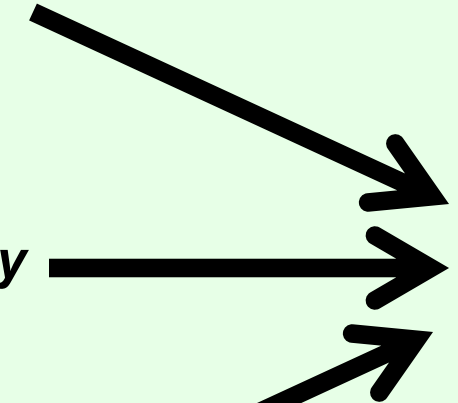


Economic Theory

linear programming
(duality)



***Mathematical
Optimization &
Operations
Research***



?

1900

1950

2000

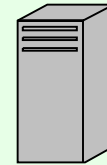


What is Economics?

- “the social science that studies the production, distribution, and consumption of goods and services.” [[Wikipedia, Jan. 2020](#)]
- Some key concepts:
 - Economic **agents** or **players** (individuals, households, firms, bots, ...)
 - Agents’ current **endowments** of goods, money, skills, ...
 - Possible **outcomes** ((re)allocations of resources, tasks, ...)
 - Agents’ **preferences** or **utility functions** over outcomes
 - Agents’ **beliefs** (over other agents’ utility functions, endowments, production possibilities, ...)
 - Agents’ possible **decisions/actions**
 - **Mechanism** that maps decisions/actions to outcomes

An economic picture

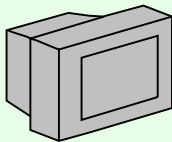
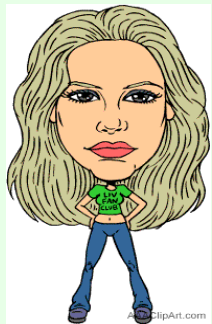
$$v(\text{server}) = 200$$



\$ 800

$$v(\text{monitor}) = 100$$

$$v(\text{laptop}) = 400$$



\$ 600

$$v(\text{laptop}) = 200$$

$$v(\text{server}, \text{monitor}) = 400$$



\$ 200



After trade (a more efficient outcome)

$$v(\text{server}) = 200$$



\$ 1100

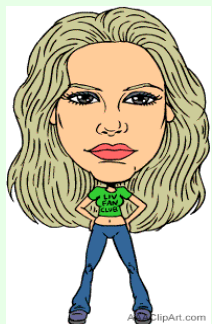
... but how do we get here?
Unstructured trade?
Auctions?
Exchanges?

$$v(\text{television}) = 100$$

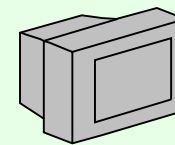
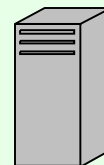
$$v(\text{laptop}) = 400$$

$$v(\text{laptop}) = 200$$

$$v(\text{server}, \text{television}) = 400$$



\$ 400



\$ 100



Some distinctions in economics

- **Descriptive vs. normative** economics
 - Descriptive:
 - seeks only to describe real-world economic phenomena
 - does not care if this is in any sense the “right” outcome
 - Normative:
 - studies how people “should” behave, what the “right” or “best” outcome is
- **Microeconomics vs. macroeconomics**
 - Microeconomics: analyzes decisions at the level of individual agents
 - deciding which goods to produce/consume, setting prices, ...
 - “bottom-up” approach
 - Macroeconomics: analyzes “the sum” of economic activity
 - interest rates, inflation, growth, unemployment, government spending, taxation, ...
 - “big picture”

What is Computer Science?

- “the study of processes that interact with data and that can be represented as data in the form of programs. It enables the use of algorithms to manipulate, store, and communicate digital information. A computer scientist studies the theory of computation and the practice of designing software systems.” [Wikipedia, Jan. 2020]
- A **computational problem** is given by a function f mapping inputs to outputs
 - For integer x , let $f(x) = 0$ if x is prime, 1 otherwise
 - For initial allocation of resources + agent utilities x , let $f(x)$ be the (re)allocation that maximizes the sum of utilities
- An **algorithm** is a fully specified procedure for computing f
 - E.g., sieve of Eratosthenes
 - A **correct algorithm** always returns the **right** answer
 - An **efficient algorithm** returns the answer **fast**
- Computer science is also concerned with building **larger artifacts** out of these building blocks (e.g., personal computers, spreadsheets, the Internet, the Web, search engines, artificial intelligence, ...)

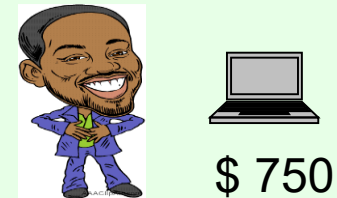
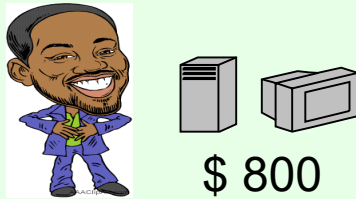
Resource allocation as a computational problem (*Part 1 of the course*)

input

output

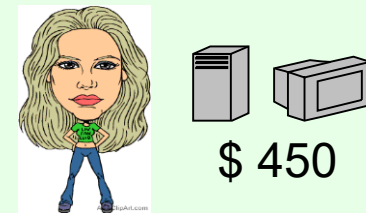
$v(\text{server, monitor}) = \400

$v(\text{laptop}) = \$600$



$v(\text{server, monitor}) = \500

$v(\text{laptop}) = \$400$



Here, gains from trade (\$300) are divided evenly (not essential)

Economic mechanisms

“true” input

agents' bids

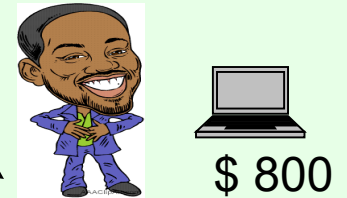
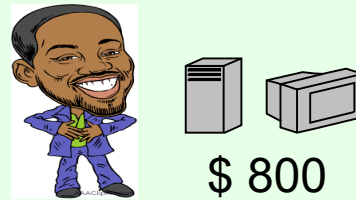
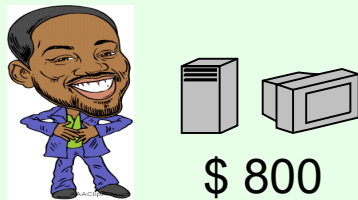
result

$$v(\text{server, printer}) = \$400$$
$$v(\text{laptop}) = \$600$$

agent 1's
bidding
algorithm

$$v(\text{server, printer}) = \$500$$
$$v(\text{laptop}) = \$501$$

exchange
mechanism
(algorithm)

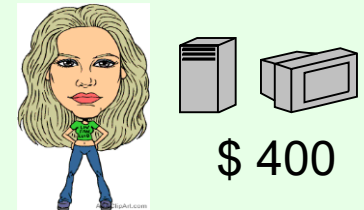


$$v(\text{server, printer}) = \$500$$
$$v(\text{laptop}) = \$400$$

agent 2's
bidding
algorithm

$$v(\text{server, printer}) = \$451$$
$$v(\text{laptop}) = \$450$$

*Exchange mechanism designer
does not have direct access to
agents' private information*



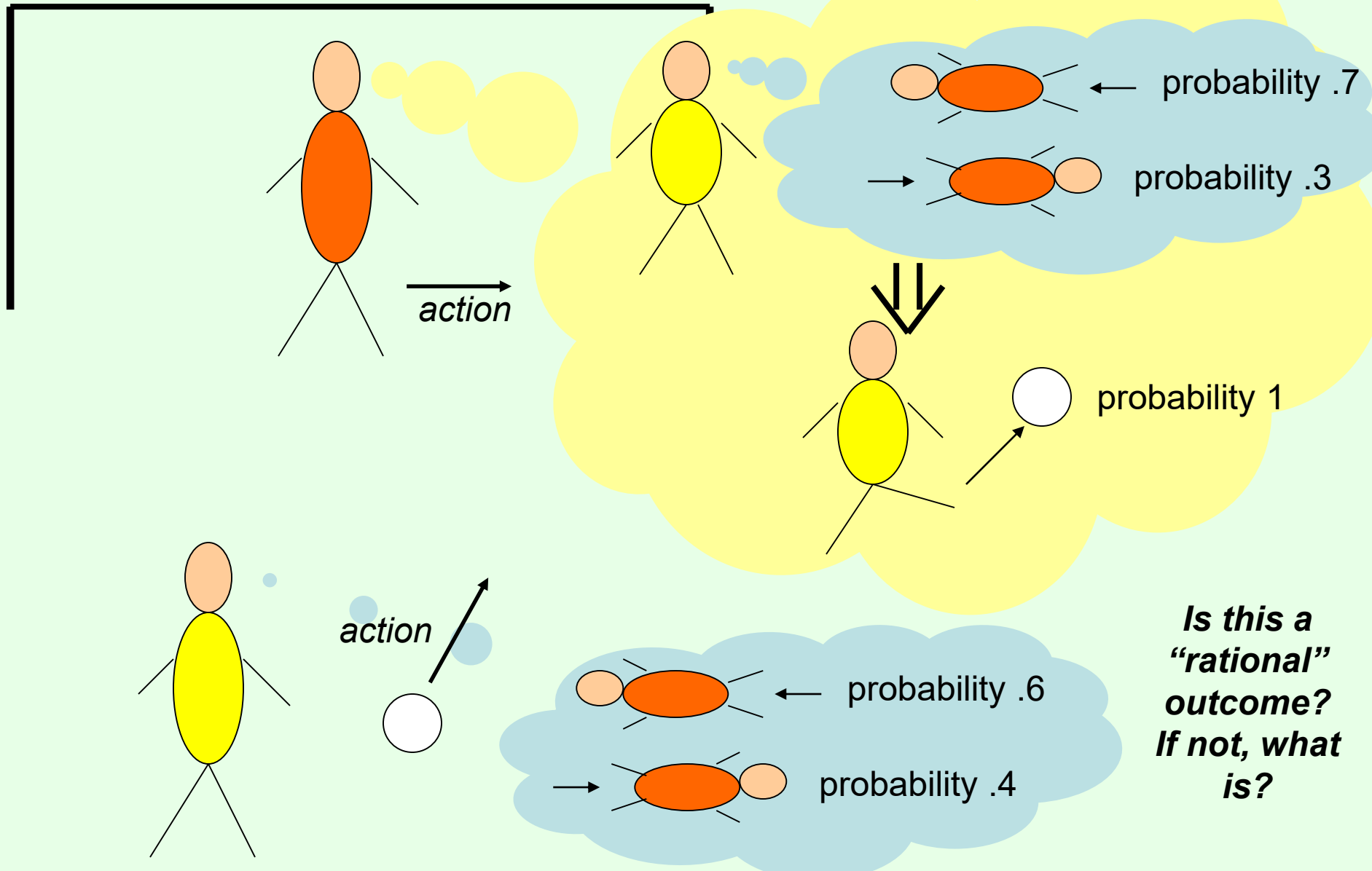
*Agents will selfishly respond to
incentives*

Game theory

(Part 2 of the course)

- Game theory studies settings where agents each have
 - different preferences (utility functions),
 - different actions that they can take
- Each agent's utility (potentially) depends on all agents' actions
 - What is optimal for one agent depends on what other agents do
 - Very circular!
- Game theory studies how agents can rationally form beliefs over what other agents will do, and (hence) how agents should act
 - Useful for acting as well as predicting behavior of others

Penalty kick example

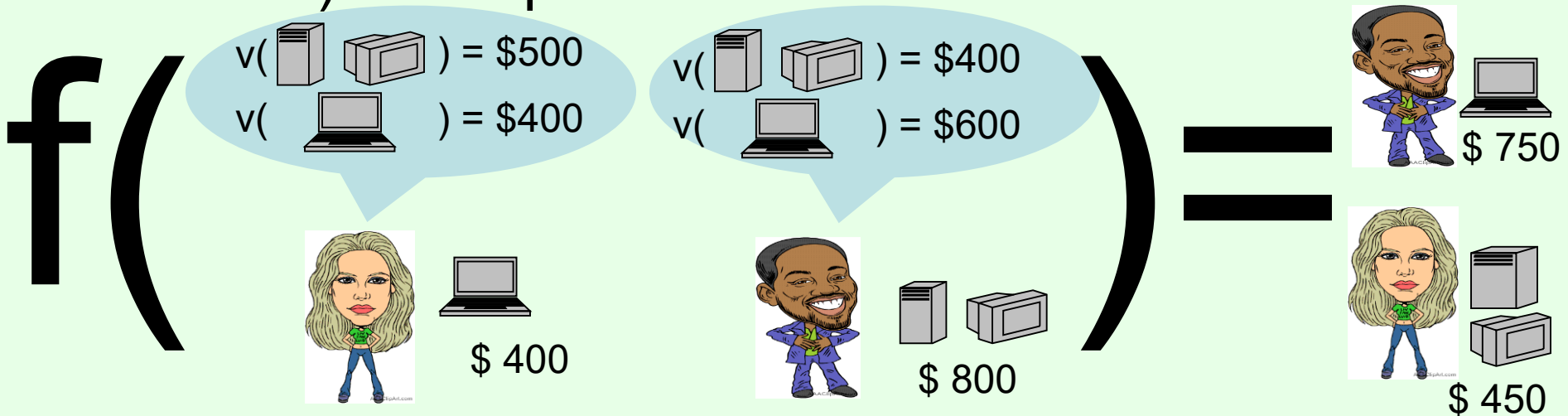


***Is this a
"rational"
outcome?
If not, what
is?***

Mechanism design

(Part 3 of the course)

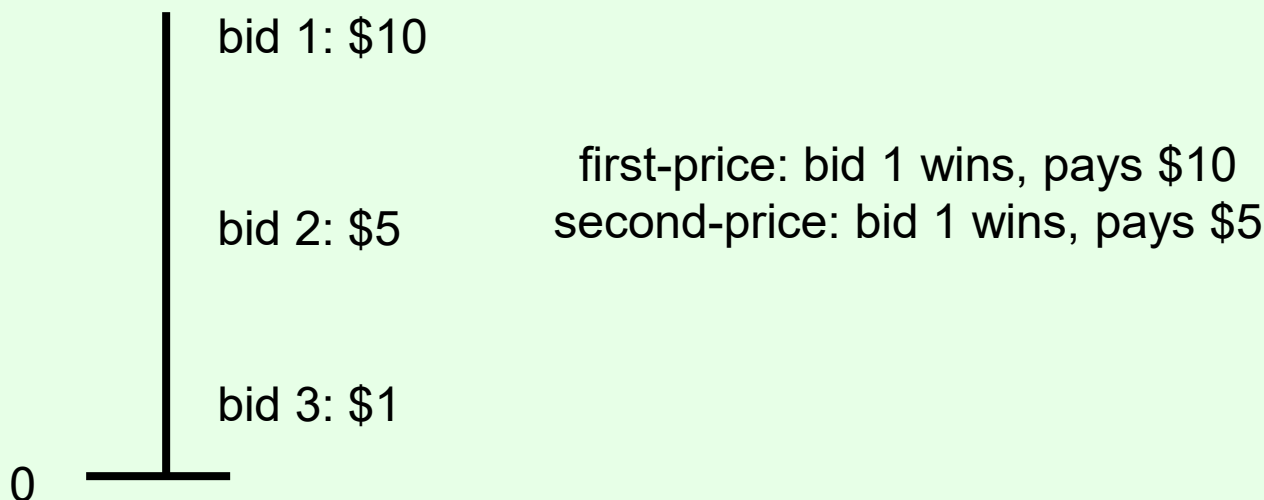
- **Mechanism** = rules of auction, exchange, ...
- A **function** that takes **reported preferences** (bids) as input, and produces **outcome** (allocation, payments to be made) as output



- The **entire function** f is **one** mechanism
- E.g., the mechanism from part 1: find allocation that maximizes (reported) utilities, distribute (reported) gains evenly
- Other mechanisms choose different allocations, payments

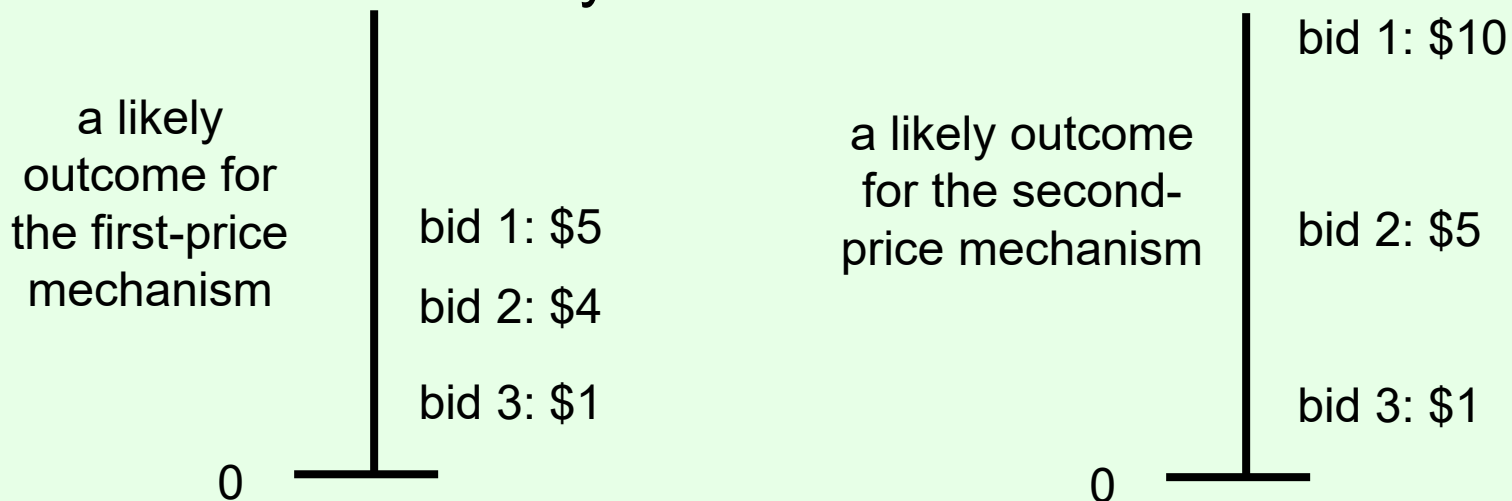
Example: (single-item) auctions

- **Sealed-bid** auction: every bidder submits bid in a sealed envelope
- **First-price** sealed-bid auction: highest bid wins, pays amount of own bid
- **Second-price** sealed-bid auction: highest bid wins, pays amount of second-highest bid



Which auction generates more revenue?

- Each bid depends on
 - bidder's **true valuation** for the item (utility = valuation - payment),
 - bidder's **beliefs** over what others will bid (\rightarrow game theory),
 - and... the **auction mechanism** used
- In a first-price auction, it does not make sense to bid your true valuation
 - Even if you win, your utility will be 0...
- In a second-price auction, (we will see later that) it always makes sense to bid your true valuation



Are there other auctions that perform better? How do we know when we have found the best one?

Mechanism design...

- Mechanism = game
- → we can use game theory to predict what will happen under a mechanism
 - if agents act strategically
- When is a mechanism “good”?
 - Should it result in outcomes that are good for the **reported** preferences, or for the **true** preferences?
 - Should agents ever end up **lying** about their preferences (in the game-theoretic solution)?
 - Should it always **generate the best allocation**?
 - Should agents ever **burn money**?(!?)
- Can we solve for the optimal mechanism?

How are we going to solve these problems? (*Part 0*)


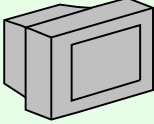
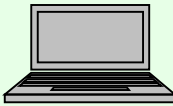
- This is **not** a programming course
- Will use optimization software
 - GNU Linear Programming Kit (GLPK)
 - Linear programming, mixed integer linear programming

Uses of LP, MIP in this course

	Linear programming	Mixed integer linear programming
Part 1 (expressive marketplaces)	Winner determination in auctions, exchanges, ... with partially acceptable bids	Winner determination in auctions, exchanges, ... without partially acceptable bids
Part 2 (game theory)	Dominated strategies Minimax strategies Correlated equilibrium Optimal mixed strategies to commit to	Nash equilibrium
Part 3 (mechanism design)	Automatically designing optimal mechanisms that use randomization	Automatically designing optimal mechanisms that do not use randomization

Other settings/applications

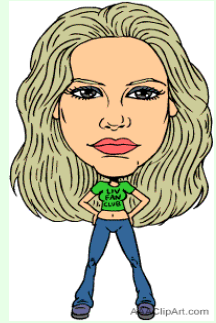
Combinatorial auctions (in Part 1)

Simultaneously for sale:  ,  , 



bid 1

$$v(\text{server rack}, \text{cabinet}) = \$500$$



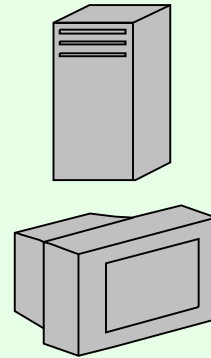
bid 2

$$v(\text{laptop}, \text{cabinet}) = \$700$$



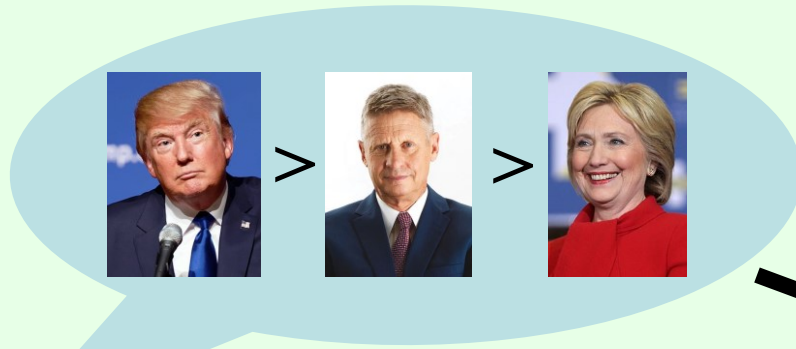
bid 3

$$v(\text{laptop}) = \$300$$

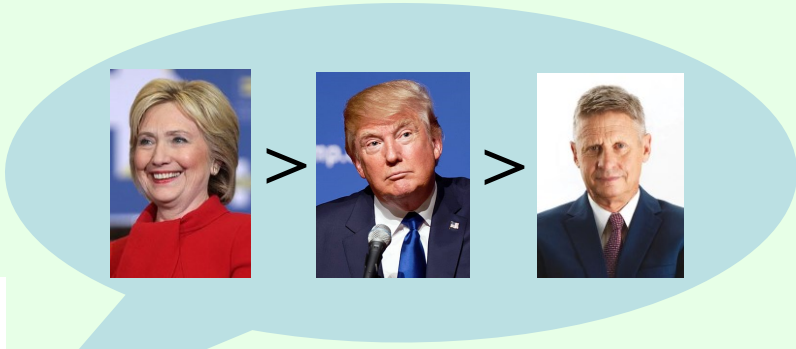


used in truckload transportation, industrial procurement, radio spectrum allocation, ...

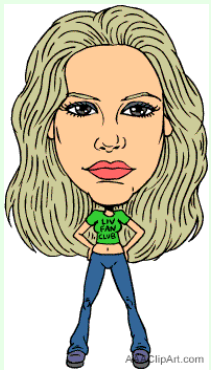
Voting (in Part 1)



voting rule
(mechanism)
determines winner
based on votes

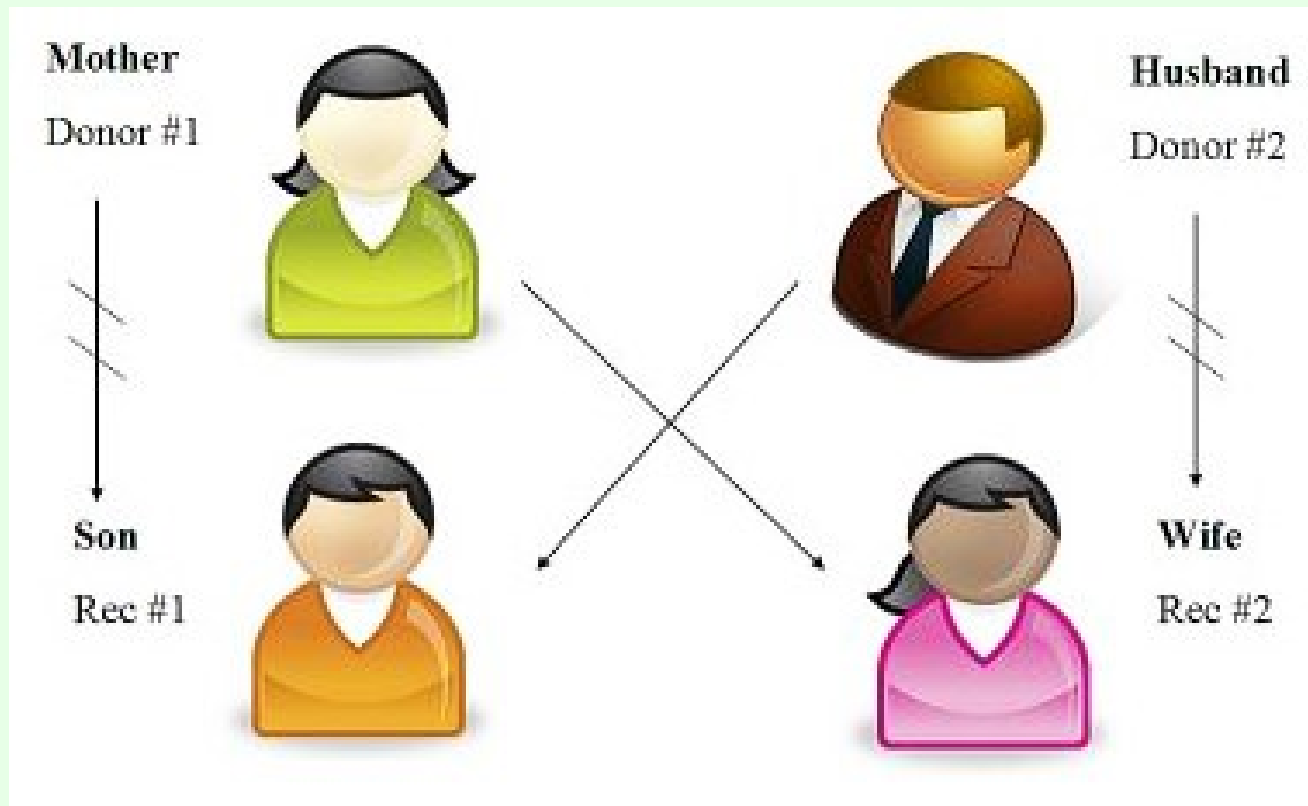


- Can vote over other things too
 - Where to go for dinner tonight, other joint plans, ...
- Many different rules exist for selecting the winner



Kidney exchange (in Part 1)

- Kidney exchanges allow patients with willing but incompatible live donors to swap donors



Kidney exchange (in Part 1)

Q | POPULAR | LATEST | FEATURED

QUARTZ

OBSSESSIONS | EMAILS | EDITIONS | G

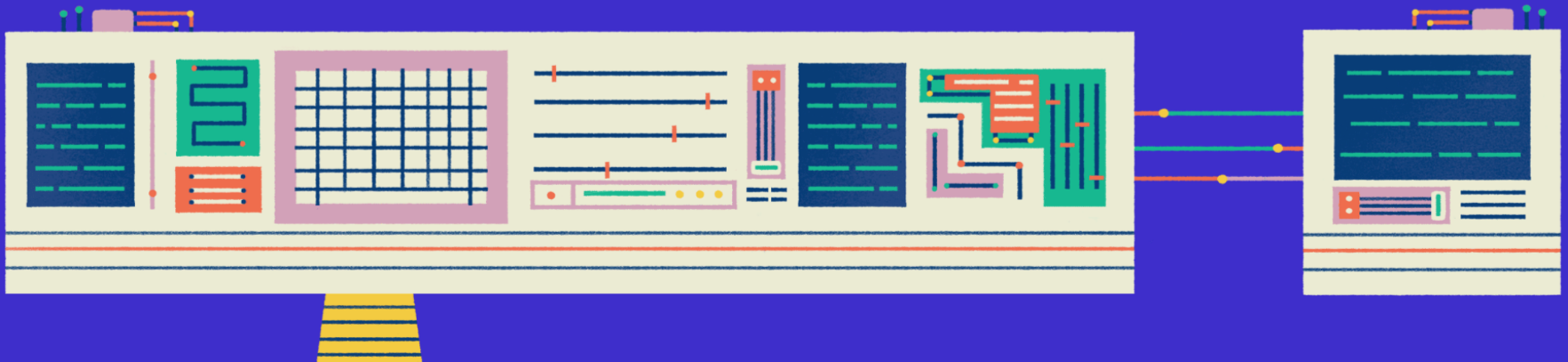
Prescription AI

This series explores the promise of AI to personalize, democratize, and advance medicine—and the dangers of letting machines make decisions.

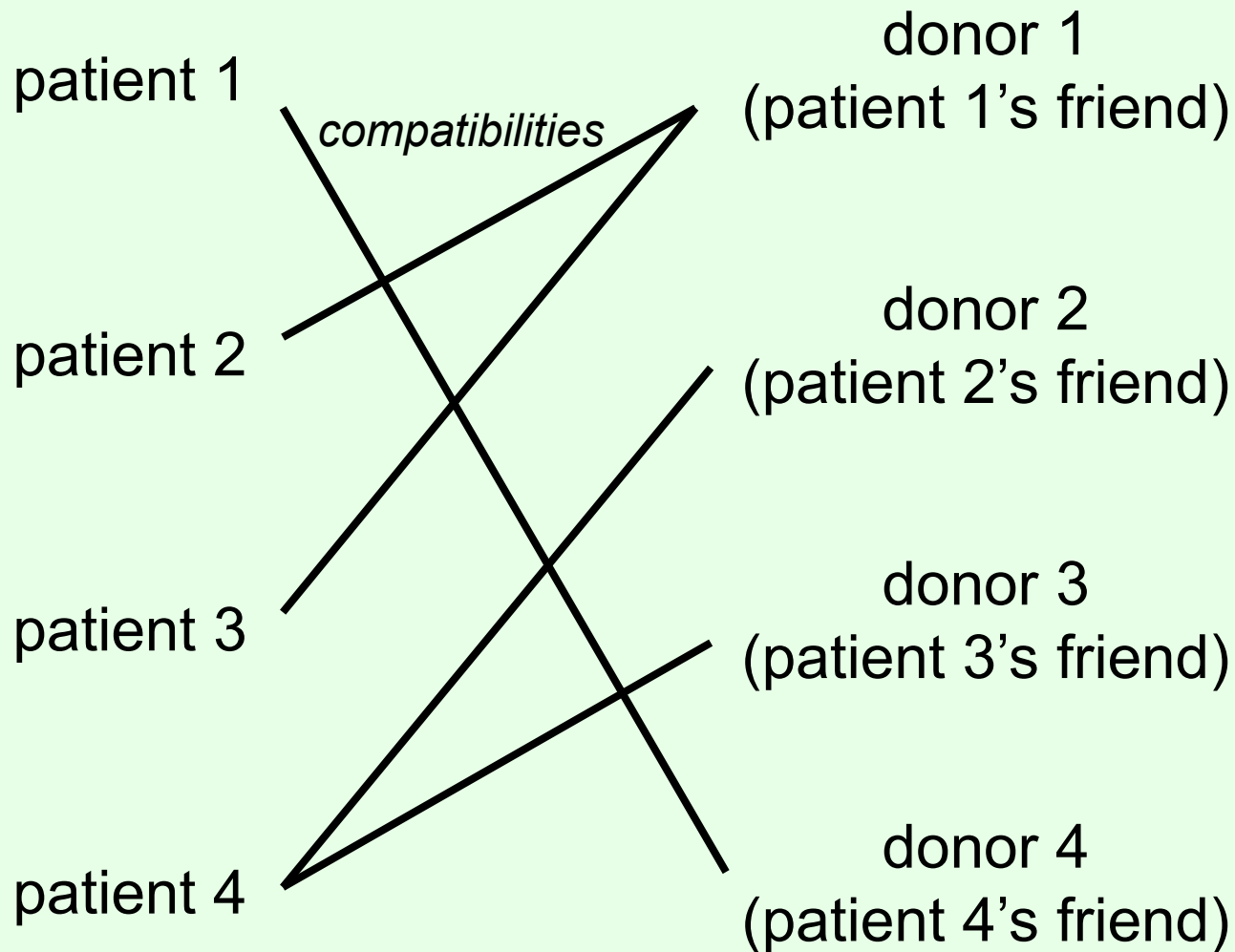
THE BOTPERATING TABLE

How AI changed organ donation in the US

By Corinne Purtill · September 10, 2018

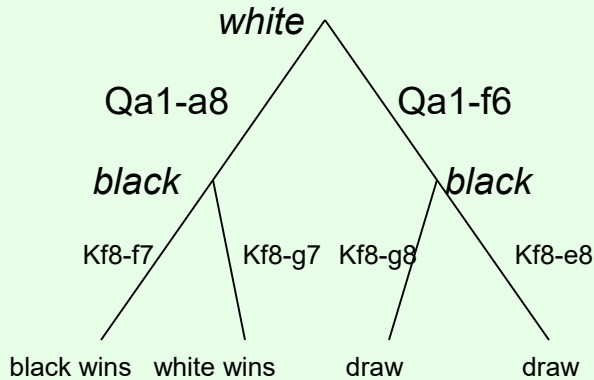


Kidney exchange (in Part 1)

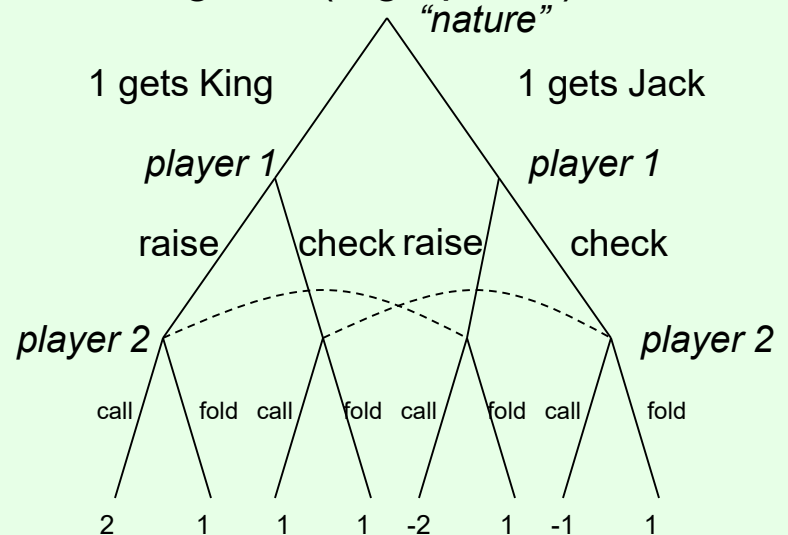


Game playing & AI (in Part 2)

perfect information games:
no uncertainty about the state of the game (e.g. tic-tac-toe, chess, Go)



imperfect information games: uncertainty about the state of the game (e.g., poker)



- Optimal play: value of each node = value of optimal child for current player (**backward induction**, minimax)
- For chess and Go, tree is too large
 - Use other techniques (heuristics, limited-depth search, alpha-beta, deep learning, ...)
- Top computer programs better than humans in chess, ~~not yet in Go~~

- Player 2 **cannot distinguish** nodes connected by dotted lines
 - Backward induction fails; need more sophisticated game-theoretic techniques for optimal play
- Small poker variants can be solved optimally
- ~~• Humans still better than top computer programs at full-scale poker (at least most versions)~~
- Top computer (~~heads-up~~) poker players are based on techniques for game theory

Science

2019 BREAKTHROUGH OF THE YEAR

Darkness made visible

RUNNERS-UP

- Face to face with the Denisovans
- Quantum supremacy attained
- Microbes combat malnourishment
- A killer impact and its aftermath
- A close-up of a far-out object
- A 'missing link' microbe emerges
- In a first, drug treats most cases of cystic fibrosis

Hope for Ebola patients, at last

Artificial intelligence masters multiplayer poker

BREAKDOWNS

- The Amazon ablaze
- Measles resurgent
- Bird counts dwindling
- An eleventh hour climate awakening?

RELATED ITEMS

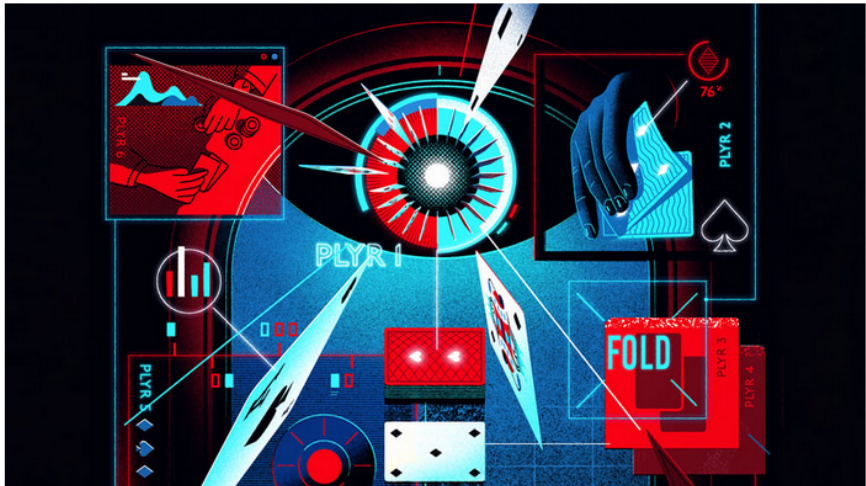
- Video
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Artificial intelligence masters multiplayer poker



JASON SOLO/THE JACKY WINTER GROUP

This year, an artificial intelligence (AI) program beat some of the world's best players in the most popular version of poker, no-limit Texas Hold 'em. The landmark result marks the first time AI has prevailed in a multiplayer contest in which players have only imperfect information about the state of the game.

AI has been trouncing humans in games at a spectacular rate. In 2007, computer scientists developed a program guaranteed not to lose at checkers. In 2016, another team developed an AI program that defeated the best humans at Go, a board game with vastly more configurations than checkers.

Poker presents a stiffer challenge, as players cannot see their opponents' cards and thus have limited information. In 2017, computer scientists developed an AI program unbeatable at a two-player version of Hold 'em—in which each player forms a hand from five cards laid face up on the table and two more each holds privately.

Now, AI has bested world-class players in the full multiplayer game, as computer scientists at Carnegie Mellon University in Pittsburgh, Pennsylvania, announced in August. By playing 1 trillion games against itself, their program, **Pluribus**, developed a basic strategy for various kinds of situations—say, playing for an inside straight. For each specific hand, it could also think through how the cards would likely play out. In 20,000 hands with six players it outperformed 15 top-level players, as measured by average winnings per hand.



Real-world security applications (in Part 2)



*Milind Tambe's TEAMCORE group
(USC → Harvard)*



Airport security

Where should checkpoints, canine units, etc. be deployed?

Federal Air Marshals

Which flights get a FAM?



US Coast Guard

Which patrol routes should be followed?

Wildlife Protection

Where to patrol to catch poachers or find their snares?



Global Presence of Security Games Efforts



PHILIP TAMBE'S ARBOR AND ITS MANY ITERATIONS ARE USED AROUND THE WORLD TO PROTECT AGAINST TERRORISM, POACHERS, ILLEGAL FISHING AND OTHER THREATS.

DEPLOYED

Paris — PROTECT
 PROTECT (initially) was used by U.S. Coast Guard forces to enhance border and maritime security in the Paris region, including the Seine river and the Paris area.

Paris — PROTECT
 PROTECT is employed at:
 Port of New York and New Jersey
 Port of Seattle
 Port of Los Angeles Long Beach

States Island Park — PROTECT
 PROTECT provides protection to the States Island Park, which covers up to a 100 square miles of park terrain.

Los Angeles International Airport — ARBOR
 ARBOR (initially) was used to enhance security along the flight routes that cross the airport.

U.S. Air Traffic — ARBOR
 ARBOR (initially) was used to enhance security along the flight routes that cross the airport.



SUCCESSFULLY TESTED

Gulf of Mexico (Near Corpus Christi, Texas) — ARBOR-USA
 ARBOR-USA (initially) was used to enhance security for U.S. Coast Guard cutters in the Gulf of Mexico (near Corpus Christi, Texas) and the adjacent waters.

Los Angeles Water — PROTECT
 The Los Angeles Water Department, which LA Water (initially) was used to enhance security in the Los Angeles area.

Seattle — PROTECT
 PROTECT (initially) was used to enhance security in the Seattle area.

Malaysia — ARBOR
 ARBOR (initially) was used to enhance security in the Malaysian area.

POSSIBLE FUTURE TEST SITES

Vietnam, Cambodia, Bangladesh, Indonesia — ARBOR

Madagascar — PAWS
 PAWS (initially) was used to enhance security in the Madagascar area.

Port of Los Angeles — ARBOR
 ARBOR (initially) was used to enhance security in the Port of Los Angeles area.



Prediction markets

(Jan. 9, 2020)

Predict It

Markets

Support

Insights

Leaderboards

Login

Sign Up



U.S. Elections

President Trump

U.S. Government

Congress

World

Who will win the 2020 U.S. presidential election?

Contract	Latest Yes Price	Best Offer	Best Offer
 Donald Trump	49¢ 1¢↓	50¢	<input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 51¢
 Joe Biden	23¢ NC	23¢	<input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 78¢
 Bernie Sanders	20¢ 1¢↑	20¢	<input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 81¢
 Michael Bloomberg	7¢ 1¢↑	7¢	<input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 94¢
 Pete Buttigieg	6¢ NC	6¢	<input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 95¢
 Elizabeth Warren	5¢ NC	6¢	<input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 95¢
 Andrew Yang	3¢ 1¢↓	4¢	<input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 97¢
 Amy Klobuchar	2¢ NC	3¢	<input type="button" value="Buy Yes"/> <input type="button" value="Buy No"/> 98¢

Prediction markets

(Jan. 9, 2020)

PredictIt

Markets

Support

Insights

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U.S. Elections

President Trump

U.S. Government

Congress

World

1. Research and Educational Facility

PredictIt is intended and offered as an experimental research and educational facility of [Victoria University](#) of Wellington, New Zealand ("Provider" or "We"), not as an investment market or a gambling facility. PredictIt is not regulated by, nor are its operators registered with, the U.S. Commodity Futures Trading Commission (CFTC) or any other regulatory authority.









Provider has received a no-action-letter from the Division of Market Oversight of the Commodity Futures Trading Commission. Without explicitly asserting jurisdiction over Provider or any of its submarkets, this letter, dated October 29, 2014, extended no-action relief to Provider's Political and Economic Indicator Markets (the latter limited to students, faculty and staff of participating universities). The letters are available at the CFTC website as part of their Freedom of Information Act documents. Pursuant to this letter, there is "a limit of 5000 total traders in any particular contract", and "a limit on investment by any single participant in any particular contract [of] \$850".

- i. PredictIt is offered by Victoria University, a highly-regarded, non-profit educational institution.
- ii. No political party or other organization referred to on the Website in connection with any Market has (or has had) any role in the promotion or operation of this Website or any Market.
- iii. Nothing on this Website constitutes an offer or invitation to trade with any person who is under 18 years of age.

2. Terms of Use

- i. These Terms of Use set out the basis on which PredictIt offers you access to, and use of, the "PredictIt" website and trading facility whose homepage is located at www.PredictIt.org (the "Website"). By accessing or connecting to the Website, you agree to abide by these Terms of Use.
- ii. We can change these Terms of Use at any time and in any way we consider appropriate. Our changes will take effect as soon as we publish an updated version of these Terms of Use on the Website. It is up to you to ensure that you are familiar with the latest version of these Terms of Use.

Financial securities (in Part 1)

- Tomorrow there must be one of   
- Agent 1 offers \$5 for a security that pays off \$10 if  or 
- Agent 2 offers \$8 for a security that pays off \$10 if  or 
- Agent 3 offers \$6 for a security that pays off \$10 if 
- Can we accept some of these at offers **at no risk?**

How to incentivize a weather forecaster (in Part 3)

$$P(\text{☀️}) = .5$$

$$P(\text{☁️🌧️}) = .3$$

$$P(\text{☁️⚡️}) = .2$$

$$P(\text{☀️}) = .8$$

$$P(\text{☁️🌧️}) = .1$$

$$P(\text{☁️⚡️}) = .1$$



- Forecaster's bonus can depend on
 - Prediction
 - Actual weather on predicted day
- Reporting true beliefs should maximize expected bonus

Sponsored search / ad auctions (in Part 3)

The screenshot shows a Google search interface. The search bar contains the text "prediction markets proper scoring". Below the search bar, there are navigation tabs for "All", "News", "Images", "Videos", "Shopping", "More", "Settings", and "Tools". The search results are displayed below, starting with "About 714,000 results (0.43 seconds)". The first result is a sponsored advertisement for "A Political Prediction Market - Join PredictIt Today - predictit.org". This ad is highlighted with a black rectangular box. Below the ad, there are several organic search results, each with a green checkmark icon to its right. The first organic result is "Scholarly articles for prediction markets proper scoring" with a sub-heading "Prediction markets: Does money matter? - Servan-Schreiber - Cited by 337". The second organic result is "[PDF] Geometric Characterization of Proper Scoring Rules and Hanson ... - ..." with a sub-heading "www.mit.edu/~pengshi/papers/2009-05-csurf-geometry.pdf". The third organic result is "[PDF] Proper Scoring Rules with Additional Properties - MIT" with a sub-heading "www.mit.edu/~pengshi/papers/2009-04-psr-characterization.pdf". The fourth organic result is "[PDF] Logarithmic Market Scoring Rules for Modular ... - Robin Hanson" with a sub-heading "hanson.gmu.edu/mktscore.pdf".

Google

prediction markets proper scoring

All News Images Videos Shopping More Settings Tools

About 714,000 results (0.43 seconds)

A Political Prediction Market - Join PredictIt Today - predictit.org

Ad www.predictit.org/

Buy and sell shares on political outcomes with PredictIt. Let's Play Politics!
Predict & Trade · Safe and Secure · Unique Platform · Easy to Use
[About](#) · [Markets](#) · [Markets Analysis](#) · [Blog](#)

Scholarly articles for **prediction markets proper scoring** ✓

Prediction markets: Does money matter? - [Servan-Schreiber](#) - Cited by 337
Logarithmic **markets** coring rules for modular ... - [Hanson](#) - Cited by 275
... new understanding of **prediction markets** via no-regret ... - [Chen](#) - Cited by 81

[PDF] **Geometric Charaterization of Proper Scoring Rules and Hanson ... - ...** ✓

www.mit.edu/~pengshi/papers/2009-05-csurf-geometry.pdf

One problem in implementing a **prediction market** is provid- ing liquidity, and ... a **proper scoring** rule can be a tedious process, and the re- lationship between ...

[PDF] **Proper Scoring Rules with Additional Properties - MIT** ✓

www.mit.edu/~pengshi/papers/2009-04-psr-characterization.pdf

of market-**scoring** rules and **prediction markets**. In this pa- per, we present a geometric interpretation to a previously known characterization of **proper scoring** ...

[PDF] **Logarithmic Market Scoring Rules for Modular ... - Robin Hanson** ✓

hanson.gmu.edu/mktscore.pdf

by R Hanson - 2002 - Cited by 275 - Related articles
cannot even **predict** the direction in which others will disagree with them (Hanson, For a non-**proper**

- Choice of ads (if any) to show determined by:
 - Advertiser bid
 - Predicted likelihood of click