Game theory (Ch. 17.5)
Announcements

Writing 1 graded, regrades due April 1

Homework 3 posted, due on Sunday at end of spring break (3/24)
Typically game theory uses a payoff matrix to represent the value of actions. The first value is the reward for the left player, right for top (positive is good for both).
Dominance & equilibrium

Here is the famous “prisoner's dilemma”

Each player chooses one action without knowing the other's and the is only played once.

<table>
<thead>
<tr>
<th></th>
<th>Confess</th>
<th>Lie</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confess</td>
<td>-8, -8</td>
<td>0, -10</td>
</tr>
<tr>
<td>Lie</td>
<td>-10, 0</td>
<td>-1, -1</td>
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</table>

**Punishments:**
- **Confess & Confess:** Each 8 years in prison.
- **Confess & Lie:** 0 years in prison for confessing, 10 years for lying.
- **Lie & Confess:** 10 years in prison for confessing, 0 years for lying.
- **Lie & Lie:** 1 year in prison for both.

*Image credits: Investopedia.com*
Dominance & equilibrium

What option would you pick?

Why?
What would a rational agent pick?

If prisoner 2 confesses, we are in the first column... -8 if we confess, or -10 if we lie

--> Thus we should confess

If prisoner 2 lies, we are in the second column,
0 if we confess,
-1 if we lie

--> We should confess
Dominance & equilibrium

It turns out regardless of the other player's action, it is in our personal interest to confess.

This is the Nash equilibrium, as any deviation of strategy (i.e. lying) can result in a lower score (i.e. if opponent confesses).

The Nash equilibrium looks at the worst case and is greedy.
Dominance & equilibrium

Formally, a Nash equilibrium is when the combined strategies of all players give no incentive for any single player to change.

In other words, if any single person decides to change strategies, they cannot improve.
Dominance & equilibrium

Alternatively, a **Pareto optimum** is a state where no other state can result in a gain or tie for all players (excluding all ties)

If the PD game, \([-8, -8]\) is a Nash equilibrium, but is not a Pareto optimum (as \([-1, -1]\) better for both players)

However \([-10,0]\) is also a Pareto optimum...
Every game has at least one Nash equilibrium and Pareto optimum, however...

- Nash equilibrium might not be the best outcome for all players (like PD game, assumes no cooperation)

- A Pareto optimum might not be stable (in PD the [-10,0] is unstable as player 1 wants to switch off “lie” and to “confess” if they play again or know strategy)
Dominance & equilibrium

Find the Nash and Pareto for the following:

(about lecturing in a certain csci class)

<table>
<thead>
<tr>
<th>Teacher</th>
<th>Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>pay attention</td>
<td>5, 5</td>
</tr>
<tr>
<td></td>
<td>-2, 2</td>
</tr>
<tr>
<td>slack off</td>
<td>1, -5</td>
</tr>
<tr>
<td></td>
<td>0, 0</td>
</tr>
</tbody>
</table>
Find best strategy

How do we formally find a Nash equilibrium?

If it is zero-sum game, can use minimax as neither player wants to switch for Nash (our PD example was not zero sum)

Let's play a simple number game: two players write down either 1 or 0 then show each other. If the sum is odd, player one wins. Otherwise, player 2 wins (on even sum)
Find best strategy

This gives the following payoffs:

<table>
<thead>
<tr>
<th>Player 1</th>
<th>Pick 0</th>
<th>Pick 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pick 0</td>
<td>-1, 1</td>
<td>1, -1</td>
</tr>
<tr>
<td>Pick 1</td>
<td>1, -1</td>
<td>-1, 1</td>
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</table>

(player 1's value first, then player 2's value)

We will run minimax on this tree twice:
1. Once with player 1 knowing player 2's move (i.e. choosing after them)
2. Once with player 2 knowing player 1's move
Find best strategy

Player 1 to go first (max):

If player 1 goes first, it will always lose
Find best strategy

Player 2 to go first (min):

If player 2 goes first, it will always lose
Find best strategy

This is not useful, and only really tells us that the best strategy is between -1 and 1 (which is fairly obvious)

This minimax strategy can only find pure strategies (i.e. you should play a single move 100% of the time)

To find a mixed strategy, we need to turn to linear programming
Find best strategy

A pure strategy is one where a player always picks the same strategy (deterministic).

A mixed strategy is when a player chooses actions probabilistically from a fixed probability distribution (i.e. the percent of time they pick an action is fixed).

If one strategy is better or equal to all others across all responses, it is a dominant strategy.
Find best strategy

The definition of a Nash equilibrium is when no one has an incentive to change the combined strategy between all players.

So we will only consider our opponent's rewards (and not consider our own).

This is a bit weird since we are not considering our own rewards at all, which is why the Nash equilibrium is sometimes criticized.
Find best strategy

First we parameterize this and make the tree stochastic:

Player 1 will choose action “0” with probability p, and action “1” with (1-p)

If player 2 always picks 0, so the payoff for p2:
(1)p + (-1)(1-p)

If player 2 always picks 1, so the payoff for p2:
(-1)p + (1)(1-p)
Find best strategy

Plot these two lines:

\[ U = (1)p + (-1)(1-p) \]
\[ U = (-1)p + (1)(1-p) \]

As we maximize, the opponent gets to pick which line to play.

Thus we choose the intersection.

opponent pick blue for this p
opponent pick red for this p
Thus we find that our best strategy is to play 0 half the time and 1 the other half.

The result is we win as much as we lose on average, and the overall game result is 0.

Player 2 can find their strategy in this method as well, and will get the same 50/50 strategy (this is not always the case that both players play the same for Nash).
Find best strategy

We have two actions, so one parameter \( p \) and thus we look for the intersections of lines.

If we had 3 actions (rock-paper-scissors), we would have 2 parameters and look for the intersection of 3 planes (2D).

This can generalize to any number of actions (but not a lot of fun).

<table>
<thead>
<tr>
<th></th>
<th>Player 1</th>
<th>Player 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stone</td>
<td>Paper</td>
</tr>
<tr>
<td>Stone</td>
<td>((0, 0))</td>
<td>((-1, 1))</td>
</tr>
<tr>
<td>Paper</td>
<td>((1, -1))</td>
<td>((0, 0))</td>
</tr>
<tr>
<td>Scissors</td>
<td>((-1, 1))</td>
<td>((1, -1))</td>
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</table>
Find best strategy

How does this compare on PD?

Player 1: $p = \text{prob confess}...

P2 Confesses: $-8*p + 0*(1-p)$

P2 Lies: $-10*p + (-1)*(1-p)$

Cross at negative $p$, but red line is better (confess)
Chicken

What is Nash for this game?
What is Pareto optimum?

<table>
<thead>
<tr>
<th></th>
<th>S</th>
<th>C</th>
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Game of Chicken
Chicken

To find Nash, assume we (blue) play S probability p, C prob 1-p

Column 1 (red=S): p*(-10) + (1-p)*(1)
Column 2 (red=C): p*(-1) + (1-p)*(0)

Intersection: -11*p + 1 = -p, p = 1/10

Conclusion: should always go straight 1/10 and chicken 9/10 the time
We can see that 10% straight makes the opponent not care what strategy they use:

(Red numbers)

100% straight: \((1/10)*(-10) + (9/10)*(1) = -0.1\)
100% chicken: \((1/10)*(-1) + (9/10)*(0) = -0.1\)
50% straight: \((0.5)*[\((1/10)*(-10) + (9/10)*(1)\)] + (0.5)*[\((1/10)*(-1) + (9/10)*(0)\)]\)

\(= (0.5)*[-0.1] + (0.5)*[-0.1] = -0.1\)
The opponent does not care about action, but you still do (never considered our values)

Your rewards, opponent 100% straight:

\[(0.1)*(-10) + (0.9)*(-1) = -1.9\]

Your rewards, opponent 100% curve:

\[(0.1)*(1) + (0.9)*(0) = 0.1\]

The opponent also needs to play at your value intersection to achieve Nash
Pareto optimum?
All points except (-10,10)

Can think about this as taking a string from the top right and bringing it down & left

Stop when string going straight left and down
Repeated games

In repeated games, things are complicated

For example, in the basic PD, there is no benefit to “lying”

<table>
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However, if you play this game multiple times, it would be beneficial to try and cooperate and stay in the [lie, lie] strategy
Repeated games

One way to do this is the *tit-for-tat* strategy:
1. Play a cooperative move first turn
2. Play the type of move the opponent last played every turn after (i.e. answer competitive moves with a competitive one)

This ensure that no strategy can “take advantage” of this and it is able to reach cooperative outcomes
Repeated games

Two “hard” topics (if you are interested) are:

1. We have been talking about how to find best responses, but it is very hard to take advantage if an opponent is playing a sub-optimal strategy

2. How to “learn” or “convince” the opponent to play cooperatively if there is an option that benefits both (yet dominated)