Ad Exchange: General Envy-free Auctions with Mediators

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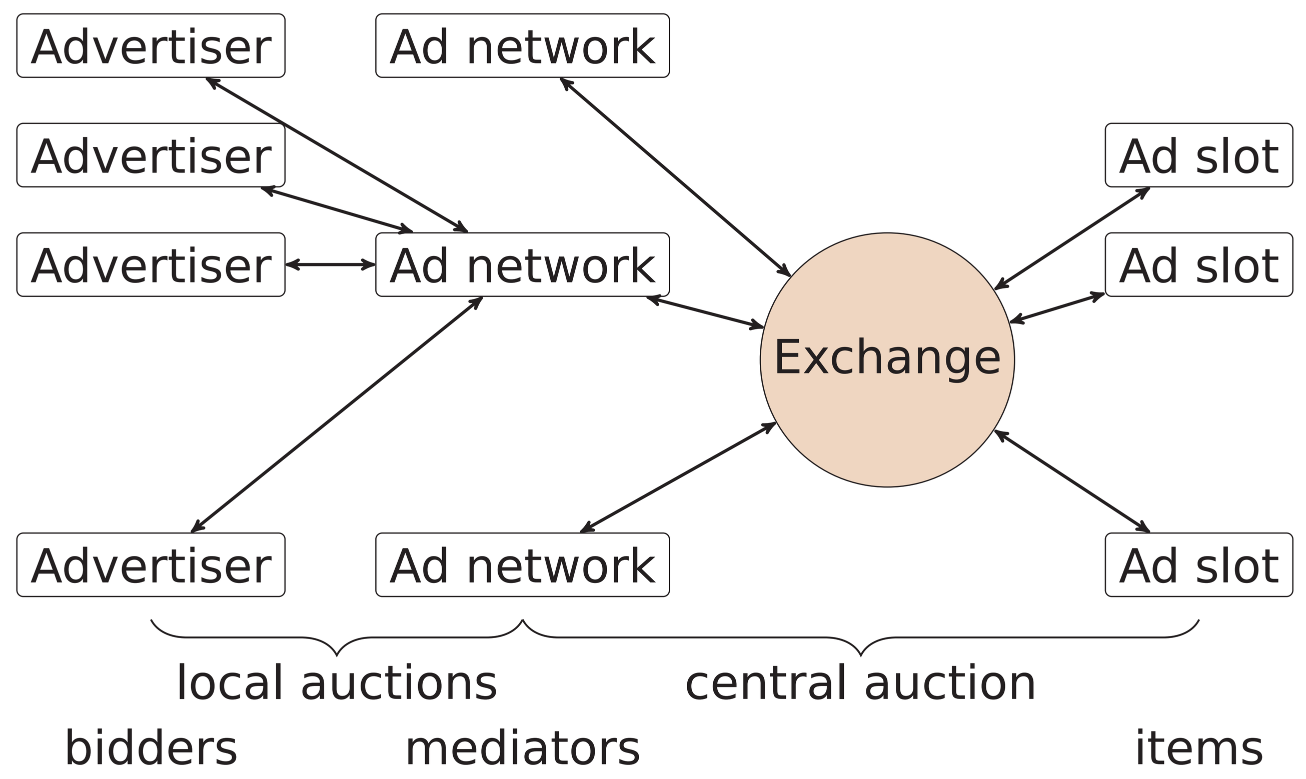
Problem



- started with DoubleClick Ad Exchange (Google) in 2007
- Facebook and Amazon started 2012, Ebay 2013
- market volume recently estimated to $2 billion

- The **utility** of a bidder for an item set S is defined as valuation(S)−price(S).
- The **revenue** of a mediator for item set S is revenue(S) = local auction prices(S) − central auction prices(S) (i.e. money received from bidders minus money paid to ad exchange) if the local auction outcome for item set S is globally envy-free for its bidders and revenue(S) = −1 otherwise.
- The **demand** is the set of item sets with highest utility / revenue.

A **general envy-free** (or **Walrasian**) **equilibrium** is a price vector and an allocation s.t. all bidders and mediators receive a set in their demand and all items with positive price are sold.

- **Does a general envy-free equilibrium always exists?**
- **Can it be computed?**

Main Result

If all bidders have **unit demand** valuations, then there is a way for the mediators to compute their bids for the central auction and the prices for their bidders such that a **general envy-free equilibrium always exists**.

unit demand valuation: $v(S) = \max_{j \in S} v(j)$

Central Auction

- **input:** valuations of bidders (only known to their mediator)
- **result:** assignment μ to mediators, central auction prices p, assignments μ'_{M_i} to bidders, and local auction prices p'_{M_i} s.t. bidders and mediators are envy-free and all items with positive price are sold

```
each mediator offers p(j) ← 0 to each item j
each item accepts one offer and rejects all others
while some offer rejected do
    for all mediators M_i do
        for all items j do
            if j has accepted M_i's offer then
                p_{M_i}(j) ← p(j)
            else
                p_{M_i}(j) ← p(j) + 1
        D_{M_i} ← demandInclAccepted(p_{M_i}, D^=_{M_i})
        offer p_{M_i} to all j ∈ D_{M_i}
    each item accepts one highest offer p(j) and rejects all others
```

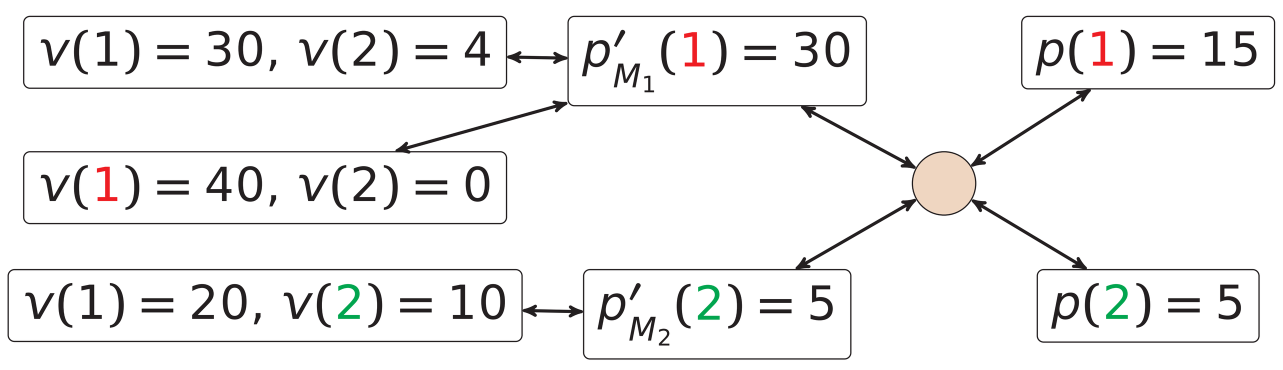
based on *salary-adjustment process* by Kelso and Crawford (1982)

Mediators' Demand

- mediators have to repeat accepted offers
- **input:** central auction prices p_M, set $D^=_M$ of accepted items for M
- **result:** returns set D_M in demand of M with $D^=_M \subseteq D_M$ and stores result (μ', p') of local auction
- The local auction is run within the subroutine localMinWalrasianEquilibrium. It returns the local Walrasian equilibrium for the bidders of mediator M with the smallest prices $p' \geq p_M$ that matches all items j in $D^=_M$ with $p_M(j) > 0$. For this we can use the algorithm and results from Dütting et al. (2011).
- (μ', p') can be initialized with $(\emptyset, 0)$

```
procedure demandInclAccepted(p, D^=)
    p̂(j) ← max(p′(j), p(j))   ∀j
    μ̂ ← {(i, j) ∈ μ′ | j ∈ D^=}
    (μ′, p′) ← localMinWalrasianEquilibrium(μ̂, p̂)
    save (μ′, p′)
    return {j | ∃(i, j) ∈ μ′} ∨ {j ∈ D^= | p(j) = 0}
```

Example



- revenue$_{M_1}$ = 15, revenue$_{M_2}$ = 0
- competition between ad networks ⇒ revenue for ad exchange
- competition within ad network ⇒ revenue for ad network

Further Results

The minimal demand sets of a mediator form the **bases of a matroid** (for any given price vector).

- similar result for gross-substitute valuations in Gul and Stacchetti (2000)

If all bidders have **additive valuations** $v(S) = \sum_{j \in S} v(j)$, then

- all mediators have additive valuations,
- a Walrasian equilibrium always exists,
- and it can be computed with multiple second price single item auctions.

Open Questions

- Does a strongly polynomial time mechanism exist?
- Can the result be generalized to other valuation classes?
- What if budgets are introduced in the unit demand case?

References and Acknowledgements

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