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Equilibrium in the symmetric two-player Hirshleifer contest: Uniqueness and characterization

Christian Ewerhart[a,*], Guang-Zhen Sun[b]

[a] Department of Economics, University of Zurich, Schönberggasse 1, 8001 Zurich, Switzerland
[b] Department of Economics, University of Macau, Macao SAR, China

HIGHLIGHTS

- The symmetric two-player Hirshleifer contest admits a unique equilibrium.
- The support of the equilibrium strategy is finite, and includes the origin.
- We establish a lower bound for the cardinality of the support.
- The undissipated rent approaches zero as the parameter grows to infinity.
- We also discuss ex-post overdissipation and extensions.

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ABSTRACT

The symmetric two-player Hirshleifer contest admits a unique equilibrium. The equilibrium support is finite and includes the zero expenditure level. We also establish a lower bound for the cardinality of the support and an upper bound for the undissipated rent.

1. Introduction

Mixed equilibria in contests of the generalized Tullock form, for which winning probabilities depend on the *ratio* of resources expended, have recently received much attention from theorists (Baye et al., 1994; Alcalde and Dahm, 2010; Ewerhart, 2015, 2017a, b; Feng and Lu, 2017). There is another appealing class of contests, however, where the winning probabilities depend instead on the *difference* of resources expended (Hirshleifer, 1989; Skaperdas, 1996; Baik, 1998; Che and Gale, 2000). In particular, Hirshleifer's framework has its merits for the analysis of military combat (Dupuy, 1987; Hirshleifer, 2000). Notwithstanding, the nature of mixed equilibria in that model has remained poorly understood.

In this paper, we prove uniqueness of the equilibrium in the symmetric two-player Hirshleifer contest, and offer a characterization of the mixed equilibrium. It is shown that the support of the symmetric equilibrium strategy is finite and includes the origin. Moreover, the cardinality of the support grows over any finite bound as the decisiveness parameter goes to infinity. Further, we show that the undissipated rent converges to zero as the decisiveness parameter goes to infinity, and that ex-post overdissipation may occur. We conclude by extending the uniqueness result to a larger class of contests.

The uniqueness result is stated in Section 2, and proven in Section 3. Section 4 characterizes the equilibrium. Rent dissipation is dealt with in Section 5. Section 6 discusses ex-post overdissipation. Alternative contest technologies are considered in Section 7.

* Corresponding author.
E-mail addresses: christian.ewerhart@econ.uzh.ch (C. Ewerhart), gzsun@umac.mo (G.-Z. Sun).

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2. Statement of the uniqueness result

The Hirshleifer contest is specified as follows. Each of two players $i \in \{1, 2\}$ expends resources $x_i \geq 0$ in an attempt to win a prize of normalized value one. Player i's payoff is given as

$$\Pi_i(x_i, x_j) = \frac{\exp(\alpha x_i)}{\exp(\alpha x_i) + \exp(\alpha x_j)} - x_i \quad (1)$$

$$= \frac{1}{1 + \exp(\alpha(x_j - x_i))} - x_i, \quad (2)$$

where $j \in \{1, 2\}$ with $j \neq i$, and $\alpha > 0$ measures the decisiveness of the difference-form contest. In particular, for $\alpha \to \infty$, payoffs converge to those of the all-pay auction.

Any bid exceeding one is strictly dominated. We therefore define a *mixed strategy* for player i as a probability measure μ_i on the Borel subsets of $[0, 1]$. The set of mixed strategies for player i will be denoted by M, where pure strategies $x_i \in [0, 1]$ are interpreted as Dirac measures, as usual. Each player i's expected payoff is well-defined for any $(\mu_i, \mu_j) \in M \times M$, and will, with some abuse of notation, be denoted by $\Pi_i(\mu_i, \mu_j)$. An *equilibrium* is a pair $\mu^* = (\mu_1^*, \mu_2^*) \in M \times M$ such that $\Pi_i(\mu_i^*, \mu_j^*) \geq \Pi_i(\mu_i, \mu_j^*)$ for any $i, j \in \{1, 2\}$ with $j \neq i$, and for any $\mu_i \in M$.

Proposition 1. *For any $\alpha > 0$, the Hirshleifer contest with parameter α has a unique equilibrium.*

3. Proof of Proposition 1

Equilibrium existence is known (cf. Hirshleifer, 1989, fn. 12). The proof of uniqueness starts from the following observation.

Lemma 1. *Let $\mu = (\mu_1, \mu_2) \in M \times M$. Then, for any $i, j \in \{1, 2\}$ with $j \neq i$, the set of maximizers $X_i(\mu) = \arg\max_{\widetilde{x}_i \in [0,1]} \Pi_i(\widetilde{x}_i, \mu_j)$ is finite.*

Proof. The proof is a straightforward adaption of Ewerhart (2015, Th. 3.2), and therefore omitted.[1] □

Next, we show the following.

Lemma 2. *The set $X^\alpha = \bigcap_{\mu^* \text{ equilibrium}} X_1(\mu^*)$ is nonempty, and contains the support of any equilibrium strategy (for both players).*

Proof. Take an equilibrium $\mu^* = (\mu_1^*, \mu_2^*)$. Clearly, the support of μ_1^* is a subset of $X_1(\mu^*)$. Let $\mu^{**} = (\mu_1^{**}, \mu_2^{**})$ be an arbitrary equilibrium. Then, since equilibria in two-player contests are interchangeable (Ewerhart, 2017b, Appendix), (μ_1^*, μ_2^{**}) is an equilibrium. Therefore, the support of μ_1^* is a subset of $X_1(\mu_1^*, \mu_2^{**})$. But $X_1(\mu_1^*, \mu_2^{**}) = X_1(\mu^{**})$. Hence, the support of μ_1^* is contained in $X_1(\mu^{**})$ for any equilibrium μ^{**}. In particular, $X^\alpha \neq \varnothing$. The second claim follows by symmetry. □

Denote by $K = |X^\alpha|$ the number of elements of X^α. Thus, $X^\alpha = \{z_1, \ldots, z_K\}$, where $z_1 > z_2 > \ldots > z_K$. Suppose first that $K = 1$. Then, the equilibrium is obviously unique. Suppose next that $K \geq 2$. Fix some equilibrium $\mu^* = (\mu_1^*, \mu_2^*)$, and let $p_j^m = \mu_j^*(\{z_m\}) \geq 0$ denote the weight assigned by μ_j^* to z_m, for $j \in \{1, 2\}$ and $m \in \{1, \ldots, K\}$. We know that $z_1, \ldots, z_K$ all deliver the equilibrium payoff Π_i^* against μ_j^*, i.e.,

$$\Pi_i^* = \left(\sum_{m=1}^{K} p_j^m \frac{\exp(\alpha z_k)}{\exp(\alpha z_k) + \exp(\alpha z_m)} \right) - z_k \qquad (k = 1, \ldots, K; j \neq i). \quad (3)$$

Thus, there are K equations to identify $(K+1)$ unknowns $p_j^1, \ldots, p_j^K$ and Π_i^*. Notably, adding the relationship $\sum_{m=1}^{K} p_j^m = 1$ does not help in general. Instead, we focus on the *largest* element of the support of player i's equilibrium strategy.[2] Since $K \geq 2$, we know that z_1 is an interior maximum. Hence, the first-order condition implies

$$\sum_{m=1}^{K} p_j^m \frac{\alpha \exp(\alpha z_1) \exp(\alpha z_m)}{(\exp(\alpha z_1) + \exp(\alpha z_m))^2} = 1. \quad (4)$$

Combining these $(K + 1)$ equations yields

$$\begin{pmatrix} \frac{\exp(\alpha z_1)}{\exp(\alpha z_1) + \exp(\alpha z_1)} & \cdots & \frac{\exp(\alpha z_1)}{\exp(\alpha z_1) + \exp(\alpha z_K)} & 1 \\ \vdots & \ddots & \vdots & \vdots \\ \frac{\exp(\alpha z_K)}{\exp(\alpha z_K) + \exp(\alpha z_1)} & \cdots & \frac{\exp(\alpha z_K)}{\exp(\alpha z_K) + \exp(\alpha z_K)} & 1 \\ \frac{\alpha \exp(\alpha z_1) \exp(\alpha z_1)}{(\exp(\alpha z_1) + \exp(\alpha z_1))^2} & \cdots & \frac{\alpha \exp(\alpha z_1) \exp(\alpha z_K)}{(\exp(\alpha z_1) + \exp(\alpha z_K))^2} & 0 \end{pmatrix} \times \begin{pmatrix} p_j^1 \\ \vdots \\ p_j^K \\ -\Pi_i^* \end{pmatrix} = \begin{pmatrix} z_1 \\ \vdots \\ z_K \\ 1 \end{pmatrix}. \quad (5)$$

It turns out that (5) has at most one solution.

Lemma 3. *The square matrix on the left-hand side of (5) is invertible.*

Proof. Let $e_k = \exp(\alpha z_k)$ for $k = 1, \ldots, K$, and

$$A_1 = \begin{pmatrix} \frac{e_1}{e_1 + e_1} & \cdots & \frac{e_1}{e_1 + e_K} & 1 \\ \frac{e_2}{e_2 + e_1} & \cdots & \frac{e_2}{e_2 + e_K} & 1 \\ \vdots & \ddots & \vdots & \vdots \\ \frac{e_K}{e_K + e_1} & \cdots & \frac{e_K}{e_K + e_K} & 1 \\ \frac{\alpha e_1 e_1}{(e_1 + e_1)^2} & \cdots & \frac{\alpha e_1 e_K}{(e_1 + e_K)^2} & 0 \end{pmatrix}. \quad (6)$$

Subtracting the first row from row k, for $k = 2, \ldots, K$, yields $\det A_1 = \det A_2$, where

$$A_2 = \begin{pmatrix} \frac{e_1}{e_1 + e_1} & \cdots & \frac{e_1}{e_1 + e_K} & 1 \\ \frac{(e_2 - e_1)e_1}{(e_2 + e_1)(e_1 + e_1)} & \cdots & \frac{(e_2 - e_1)e_K}{(e_2 + e_K)(e_1 + e_K)} & 0 \\ \vdots & \ddots & \vdots & \vdots \\ \frac{(e_K - e_1)e_1}{(e_K + e_1)(e_1 + e_1)} & \cdots & \frac{(e_K - e_1)e_K}{(e_K + e_K)(e_1 + e_K)} & 0 \\ \frac{\alpha e_1 e_1}{(e_1 + e_1)^2} & \cdots & \frac{\alpha e_1 e_K}{(e_1 + e_K)^2} & 0 \end{pmatrix}. \quad (7)$$

Next, we extract the factor $e_m/(e_1 + e_m) > 0$ from column m, for $m = 1, \ldots, K$, and the factor $(e_k - e_1) > 0$ from row k, for $k = 2, \ldots, K$. Further, we extract the factor $\alpha e_1 > 0$ from the last row. This yields

$$\det A_2 = \left(\prod_{1 \leq m \leq K} \frac{e_m}{e_1 + e_m} \right) \cdot \left(\prod_{2 \leq k \leq K} (e_k - e_1) \right) \cdot \alpha e_1 \cdot \det A_3, \quad (8)$$

[1] If attention is restricted to strategies that are absolutely continuous with respect to the Lebesgue measure, the use of complex-analytic methods may be circumvented (Sun, 2017).

[2] The first-named author would like to thank Larry Samuelson for this suggestion.