A negative auction

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Abstract—In this paper we describe a type of auction mechanism where the auctioneer A wants to auction an item \( \zeta \) among a certain number of bidders \( b_i \in B (i = 1, \ldots, n) \) that submit bids in the auction with the aim of not getting \( \zeta \). Owing to this feature we call this mechanism a negative auction. The main motivation of this mechanism is both the bidders and the auctioneer give a negative value to the auctioned item (and so they see it as a bad rather than a good). The mechanism is presented in its basic simple version and with some possible extensions that account for the payment of a fee for not attending the auction, the interactions among the bidders and the presence of other supporting actors.

I INTRODUCTION

In this paper we describe a type of auction mechanism where the auctioneer A wants to auction an item \( \zeta \) among a certain number of bidders \( b_i \in B (i = 1, \ldots, n) \) that submit bids in the auction with the aim of not getting \( \zeta \). Owing to this feature we call this mechanism a negative auction ([4]). The main motivation of this mechanism is twofold ([7] and [8]):
- both the bidders and the auctioneer give a negative value to the auctioned item (and so they see it as a bad rather than a good),
- the auctioneer has an imperfect knowledge of the bidders and so cannot contact any of them directly.

The mechanism\(^3\), at least in its basic version, is simple and will be described in detail in section 5 whereas the needed details will be presented in the sections 3 and 4.

Algorithm 1.1 The basic mechanism is based on the following steps.
- A selects the bidders \( b_j \) according to some private criteria that depend on the nature of \( \zeta \);
- the \( b_j \) submit their bids in a sealed bid auction;
- once the bids have been submitted they are revealed so that:
  - the bidder who made the lowest bid is the losing bidder and gets \( \zeta \);
  - the other bidders are termed winning bidders and get the benefit of having avoided the allocation of \( \zeta \);
  - the losing bidder \( b_1 \) gets \( \zeta \) and, as a compensation, a sum equal to his bid \( x_1 \); - each winning bidder \( b_i \) pays to the losing bidder a properly defined fraction of \( x_1 \).

This simple mechanism will be described in some detail in the following sections together with the possible strategies of the bidders and some possible extensions. The extensions include a pre auction phase, where some of the bidders pay a fee for not attending the auction, and a post auction phase that can assume three forms and that aims at the reallocation of \( \zeta \) depending on criteria that are different from those that drove the auction phase itself.

II PRE AUCTION AND POST AUCTION PHASES

In the pre auction phase the bidders are allowed to pay to A a fee \( f \) (that A fixed and made common knowledge among the bidders) for not attending the auction. In this case, depending on the amount of the fee, we can have that:
- \( m \) bidders prefer to pay the fee in order not to attend the auction;
- \( k = n - m \) bidders prefer to attend the auction.

In this case, at the end of the auction phase, A has collected an extra compensation equal to \( ec = mf \) that is awarded to the losing bidder. The value \( ec \) (see also section 8) may be either a public knowledge among the bidders that therefore know \( m \) but not necessarily \( k \) (since the value \( n \) is not necessarily a common knowledge among the bidders) before the auction phase or it may be a private knowledge of A to be revealed only after the execution of the auction phase.

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1 In this paper we are going to use the term mechanism in a rather informal sense as a set of rules, strategies and procedures. For a more formal use of the term we refer, for instance, to [7] and [9].
2 In what follows we identify a bidder \( b_j \) also by the index \( j \in N = \{1, \ldots, n\} \).
3 The proposed mechanism is loosely inspired by the Contract Net Protocol ([6, 14]).
4 Possible ties among two or more losing bidders are resolved through a properly designed random device.
5 We assume that after the bids have been revealed we renumber the bidders so that the losing bidder is the bidder \( b_1 \) whereas all the other bidder \( b_i \) (with \( i \neq 1 \)) are the winning bidders.
As to the last point we note how this feature may be guaranteed or at least enforced through the design of the structure of the pre auction phase that can be designed so to make the communication among the bidders either too difficult or too costly. The easiest solution is to have the bidders, at least in this phase, to be unaware one of the others so to make any inter bidders communication impossible. In the present paper we consider only the private knowledge case so that the value \( \varepsilon_2 \) has no influence on the behavior of the \( k \) attending bidders that do not have such information when they submit their bids (see section 8). We note indeed how even the \( m \) bidders who paid the fee can attend the possible post auction phase. This requires that in that phase the full set of bidders is revealed and becomes a common knowledge. In the post auction phase we introduce some mechanisms that try to correct a simplifying assumption that we have made in the basic mechanism. The basic mechanism is, indeed, based on the assumption that the various \( b_i \) are independent one from the others (in the sense that the allocation of \( \zeta \) to one of the bidders has effect only on that bidder) and, similarly, do not influence any other actor.\(^6\) The mechanisms of the post auction phase aim, indeed, at accounting for the following facts:

(pa1) the bidders \( b_i \) are interdependent and so they may influence each other so that, for any pair of bidders \((b_i, b_j)\), we can define as \( d_{ij} \) the damage caused to \( b_i \) from the allocation of \( \zeta \) to \( b_j \);

(pa2) the bidders \( b_i \) may influence the actors of the set \( S \) (see footnote 6) so that, for any actor \( s \in S \), we can define as \( D_{i,j} \) the damage caused to \( s \) from the allocation of \( \zeta \) to \( b_j \).

We may assume in general that \( d_{ij} \neq d_{ji} \) so the cross damages between pairs of bidders are not symmetrically distributed. In the (pa1) case we assume that the bidders are independent but \( S = \emptyset \). In this case the bidders can try to negotiate an allocation to another bidder that is more preferred by all the bidders depending on the values \( d_i \) (for \( i \neq j \)) and not on the values \( m_i = d_{ij} \) that drive the auction phase. In the (pa2) case, we assume that the bidders are independent but \( S \neq \emptyset \). In this case the members of \( S \) may try to obtain a reallocation depending on the values \( D_{i,j} \). Last but not least the two cases (pa1) and (pa2) can be merged in a single case where we have both interdependent bidders and \( S = \emptyset \). In all the post auction cases the starting point is the allocation of \( \zeta \) to one of the bidders on the basis of the outcome of the auction phase where each bidder is guided only by his self damage \( m_i = d_{ij} \). At the end of the auction phase we can have two cases:
- the resulting allocation is satisfactory\(^7\);
- the resulting allocation is unsatisfactory.

In the former case no reallocation is required whereas in the latter case either the bidders of the set \( B \) or the supporters of the set \( S \) may try to renegotiate it, within the proposed mechanisms in order to identify a new bidder as the more preferred allocation. We underline how such reallocation may require the raising of a further compensation for the new bidder in order to have him accept the allocation of \( \zeta \).

### III The Defining Parameters

Both the auctioneer \( A \) and the bidders of the set \( B \) are characterized by some parameters that depend heavily on the nature of the item \( \zeta \) but also on their individual characteristics.

**Definition 3.1** For what concerns \( A \) we have only one parameter: the value \( m_A \) that \( A \) assigns to \( \zeta \) as a measure of his utility since the only benefit that \( A \) receives from the auction is the allocation of \( \zeta \). With \( m_A \) we denote:
- the damage or the negative utility that \( A \) will receive from \( \zeta \) if the auction is void so the allocation fails;
- the benefit or the positive utility that \( A \) receives from the allocation of \( \zeta \) to one of the \( b_i \in B \).

**Observation 3.1** In the former case \( m_A \) has a negative value whereas in the latter it has a positive value.

**Definition 3.2** Every \( b_i \in B \) is characterized by the following parameters (see also [7, 8]):
- a value \( m_i \) that he assigns to \( \zeta \);
- the amount \( x_i \) he is willing to bid;
- the random variables \( X_j \) that describe the bids of the other bidders;
- the interval of the values \([0, M_j]\) to which the \( m_i \) belong;
- the intervals of the values \([0, M_j]\) to which the \( X_j \) belong;
- the differentiable cumulative distributions \( F_j \) of the values \( X_j \);
- the corresponding density functions \( f_j = F'_j \) of such values.

**Observation 3.2** We note that:
1. the parameter \( m_i \) has a dual meaning in the sense that:
   - it represents the damage that \( b_i \) receives from the allocation of \( \zeta \);
   - it represents the benefit that \( b_i \) gets from the allocation of \( \zeta \) to some other bidder;
2. With the term actor we denote a figure that is distinct from both \( A \) and the Bs but that wants to attend the auction since he thinks to be damaged from the allocation of \( \zeta \) to one of the bidders. Such actors are termed supporters and form the set \( S \).
3. The concept of satisfaction will be defined for each post auction phase. For the moment we say that an allocation is satisfactory if there are no incentives for its modification either from the members of \( B \) or from the members of \( S \) or from both.
the parameter $x_i$ has a dual meaning in the sense that:
- it represents the sum that $b_i$ asks as a compensation for the allocation of $\zeta$;
- it defines the fraction $c_i$ of the compensation that $b_i$ has to pay to the losing bidder.

We can also define the following probabilities:
- the probability $p_i$ for $b_i$ of losing the auction;
- the dual probability $q_i = 1 - p_i$ for $b_i$ of winning the auction.

We recall that the losing bidder is the bidder who gets $\zeta$ and a compensation from the other bidders, the winning bidders.

IV THE BASIC ASSUMPTIONS

In this section we introduce the basic assumptions that we make on the parameters that characterize both the auctioneer and the bidders and that will be maintained through the rest of the paper.

Assumptions 4.1 The only assumption we can make on $A$ is that his value $m_A$ is a private information of the auctioneer so that it is not known to the bidders. If we relax this assumption so that $m_A$ becomes a common knowledge among the bidders we may assume that such a knowledge may influence the evaluations of the bidders since they may derive form this knowledge hints on the real nature of the auctioned item.

Assumptions 4.2 The basic assumptions that involve the characteristic parameters of the bidders may be summarized as follows:
- the bidders are assumed to be risk neutral so that their utility is linearly separable ([7]) and can be expressed as the difference between a benefit and a damage and so as $x_i - m_i$ if the bidder $b_i$ loses the auction or as $m_i - c_i$ if he wins it;
- the random variables $X_j$ are assumed to belong to a common interval $[0, M]$ for a suitable $M > 0$;
- the random variables $X_j$ are assumed to be independent random variables;
- the valuations $m_i$ are assumed to be private values of the single bidders;
- the bidders $b_j$ are assumed to be symmetric so they are characterized by the same $F$ and by the same corresponding $f$;
- the random variables $X_j$ are assumed to be uniformly distributed on the interval $[0, M]$ so that we have, for $x \in [0, M]$:

$$P(X_j \leq x) = F(x) = \frac{x}{M} \quad (1)$$

and, correspondingly:

$$f(x) = \frac{1}{M} \quad (2)$$

From the foregoing assumptions we derive that the probability $p_i$ for each bidder $b_i$ of losing the auction is the same for all the bidders so we can denote it as $p$ and use $q = 1 - p$ to denote the dual probability of winning the auction.

Observation 4.1 Possible relaxations of the foregoing assumptions involve:
- the possibility that the bidders are risk adverse$^9$ so that his utility is no more linearly separable but it is a convex function of $x_i$;
- the possibility that the evaluations are either common or interdependent among the bidders;
- the possibility that the bidders are asymmetric so that we can have different intervals $[0, M_j]$ and different functions $F_j$ and $f_j$ for each bidder $b_j$ as well as the possibility to have different distributions (such as a Gaussian or a triangular distribution) also under the symmetry assumption.

Such relaxations can be introduced either one at a time or in combinations. Their treatment, that makes the analysis more complex, is out of the scope of the present paper and is the subject of further research efforts (see section 8 for further details).

$^8$See [7, 8]

$^9$We recall that, in classical terms, a player is risk neutral ([5]) if he is indifferent between attending a lottery and receiving a sum equal to its expected monetary value whereas he is risk averse if he prefers the expected value to attending the lottery. We can also say that a player is risk neutral if his utility function is linearly separable in gain and loss whereas, if he is risk averse, it can be seen as a concave function. In our context we have to consider the opposite perspective and so we consider the utility function of risk averse bidders as a convex function of its meaningful parameters.
V THE BASIC MECHANISM AND ITS STRATEGIES

The basic mechanism has only the auction phase among independent bidders with $S = \emptyset$.

Algorithm 5.1 We can describe the basic mechanism with the following algorithm:\textsuperscript{10}
\begin{itemize}
  \item [(ph1)] A auctions $\zeta$;
  \item [(ph2)] the bidders make their bids $x_i$ in a sealed bid one shot auction;
  \item [(ph3)] the bids are revealed;
  \item [(ph4)] the lowest bidding bidder\textsuperscript{11} $b_1$ gets $\zeta$ and $x_1$ as a compensation for this allocation;
  \item [(ph5)] each of the other bidders $b_i$ pays to $b_1$ a fraction $c_i$ of $x_1$ such that:
\end{itemize}
\begin{equation}
c_i = x_1 \quad (3)
\end{equation}
\textbf{Observation 5.1} For what concerns the values $c_i$ we assume a proportional repartition among the bidders so we have:
\begin{equation}
c_i = x_1\frac{x_i}{X} \quad (4)
\end{equation}
where $X = \sum_{j \neq i} x_j$. In this way we account for the fact that the bidders who receive a bigger advantage from the allocation of $\zeta$ to $b_1$ pay the higher fractions of the compensation. At this point we state and prove the following proposition.

\textbf{Proposition 5.1} (Weakly dominant strategy) From the assumptions we made in section 4 we derive that it is a weakly dominant strategy for each bidder to submit a bid $x_i$ equal to his evaluation $m_i$ of the auctioned item $\zeta$.

\textbf{Proof} From what we have stated in sections 3 and 4 we derive easily that the expected utility from the auction for every bidder $b_i$ when he faces the phase (ph2) can be expressed as:
\begin{equation}
E(b_i) = p(x_i - m_i) + (1 - p)(m_i - x_1)\frac{x_i}{X} \quad (5)
\end{equation}
as the sum of the utility if he loses the auction multiplied with the probability of losing it and the utility if he wins it multiplied with the probability of winning it. Relation (5) can be rewritten as:
\begin{equation}
E(b_i) = (1 - \frac{x_i}{M})^{n-1}(x_i - m_i) + (1 - (1 - \frac{x_i}{M})^{n-1})(m_i - x_1\frac{x_i}{X}) \quad (6)
\end{equation}
by using the following equalities:
\begin{equation}
p = (1 - \frac{x_i}{M})^{n-1} \quad (7)
\end{equation}
\begin{equation}
q = 1 - p = 1 - (1 - \frac{x_i}{M})^{n-1} \quad (8)
\end{equation}
that have been derived by using the hypotheses of independence and identical and uniform distribution of the $X_j$ and by imposing that the $x_i$ is lower than any of the $X_j$ for $j \neq i$. Since in relations (5) and (6) we want to impose that in any case each bidder $b_i$ has a non negative utility we get the following constraints:\textsuperscript{12}
\begin{equation}
y_1 = x_i - m_i \geq 0
\end{equation}
\begin{equation}
y_2 = m_i - x_1\frac{x_i}{X} = m_i - x_1\frac{x_i}{X_2} \geq 0
\end{equation}
where $y_1$ is the utility for $b_i$ if he loses and $y_2$ is his utility if he wins. From the former constraint we derive:
\begin{equation}
x_i \geq m_i \quad (9)
\end{equation}
For what concerns the latter constraint, from the definition of $y_2$ and by performing the derivations with respect to $x_i$, we easily derive that:
\begin{equation}
y'_2 < 0
\end{equation}
\begin{equation}
y''_2 > 0
\end{equation}
\textsuperscript{10}Also in this section we assume that, when the phase (ph3) is over we can renumber the bidders so that $b_1$ is the losing bidder whereas the $b_i$ (with $i \neq 1$) are the winning bidders.

\textsuperscript{11}Possible ties are resolved with the random selection of one of the tied bidders.

\textsuperscript{12}We note how we can write $X = x_i + X'$ where $X'$ accounts for the bids of the bidders distinct from $b_1$ and $b_i$. 
so \( y_2 \) is concave decreasing with:

- a maximum value equal to \( y_2(0) = m_i \) for \( x_i = 0 \);  
- a minimum value equal to:

\[
y_2(M) = m_i - x_1 \frac{M}{M + x_i} \tag{10}
\]

It is easy to verify that we have \( y_2(m_i) > 0 \) whereas we cannot exclude that \( y_2(M) \) may assume negative values though this is a rather unlikely event. From relations (7) and (8) we can easily see how:

- \( p \) has a maximum value of 1 for \( x_i = 0 \), decreases for \( x_i \) increasing and attains a null value for \( x_i = M \);
- \( q \) has dual behavior since it has a minimum value of 0 for \( x_i = 0 \), increases for \( x_i \) increasing and attains the maximum value of 1 for \( x_i = M \);

At this point we want to find the value \( \bar{x}_i \) where we have

\[
p = q \tag{11}
\]

so that for \( x_i < \bar{x}_i \) we have that \( p \) dominates \( q \) whereas we have the opposite for \( x_i > \bar{x}_i \). From relation (11) and relations (7) and (8) we get:

\[
(1 - \frac{x_i}{M})^{n-1} = 1 - (1 - \frac{x_i}{M})^{n-1} \tag{12}
\]

From relation (12), with some easy algebra, we derive:

\[
\bar{x}_i = (1 - \frac{1}{\frac{1}{x_i}})^{\frac{1}{n-1}} M \tag{13}
\]

We note that \( \bar{x}_i \to 0 \) as \( n \to \infty \) so that \( q \) tends to dominate \( p \) for any \( x_i \). According to all this we have that \( b_i \) should maximize \( y_2 \) so to bid no less than \( m_i \) and so (given the constraint we have imposed on \( y_1 \)) he should bid a sum equal to \( m_i \).

**Observation 5.2** We note that we have:

\[
P' \to 0 \text{ as } n \to \infty
\]

where \( p' \) is the derivative of \( p \) as a function of \( x_i \) whereas:

\[
q' \to \infty \text{ as } n \to \infty
\]

where \( q' \) is the derivative of \( q \) as a function of \( x_i \).

**Observation 5.3** It is obvious that at phase \( (p_1) \) each \( b_i \) knows if he is the loser or one of the winners. In the former case he has a utility:

whereas in the latter he has a utility:

\[
x_1 - m_1 \tag{16}
\]

\[
m_i - x_1 \frac{x_i}{M} \tag{17}
\]

**Observation 5.4** We have in this way verified how the truthful bidding is a weakly dominant strategy for each bidder in the basic mechanism of the negative auction.

**Observation 5.5** The proposed mechanism has a strong analogy with a First Price Sealed Bid auction ([7]). In the auctions of this type the winning bidder is the highest offering bidder who pays his bid. Under hypotheses similar to the ones we made in sections 3 and 4 we have that in a First Price Sealed Bid auction the best strategy for each bidder is to bid a little less than one’s own evaluation or to bid \( x_i = m_i - \delta \) with \( \delta \to 0 \) for \( n \to \infty \).

If we suppose to use negative prices our mechanism is analogous to a First Price Sealed Bid auction so, in our case, the best strategy for each bidder is to bid a little more than one’s own evaluation or to bid \( x_i = m_i + \delta \) with \( \delta \to 0 \) for \( n \to \infty \).

**VI THE USE OF THE FEE**

In this section we present the pre auction phase where:

- \( m \) bidders pay the fee \( f \) in order to not attend the auction;
- \( k = n - m \) bidders prefer to attend the auction.

We make the hypothesis that the sum \( e_c = mf \) is a private information of A so it is unknown to the other \( k \) bidders that neither know \( n \). For the \( k \) attending bidders we can repeat what we have said in section 5. In this case the losing bidder, at the end of the auction phase, gets the following final compensation:
If the mechanism has a post auction phase then all the initial \( n \) bidders can attend to it, as we will show in the following sections. At this point we define the following profiles:

\( (ne1) \) all the \( n \) bidders pay the fee \( f \),

\( (ne2) \) none of the \( n \) bidders pays the fee \( f \).

We want to see if such profiles are Nash Equilibria\(^{13} \) \((NE)\) or not.

In the case \( (ne1) \) we have that if the bidders collude among themselves and decide that they all pay the fee \( f \) they collect the sum \( e_c = nf \). In this case, every bidder would have a utility equal to\(^{14} \) \( m_i - f \). If only one bidder \( b_j \) individually violates the collusive agreement he gets a utility equal to:

\[
(n-1)f-m_j
\]

since no further compensation from the auction phase is possible. The individual deviation is profitable (so that \( (ne1) \) is not a \( NE \)) if we have:

\[
(n-1)f-m_j > m_j - f
\]

\[
m_j < \frac{f}{2}
\]

(19) (20) (21)

So if the fee \( f \) is such that the constraint (21) is satisfied for at least one \( b_j \) the collusive agreement is not a \( NE \) and the auction cannot be void since \( A \) is able to find a bidder to which to allocate \( \zeta \) with a compensation paid by the other bidders. We note that if \( A \) fixes \( f \) as:

\[
f > \frac{2M}{n}
\]

we have:

\[
\frac{n}{2}f > M \geq m_i \forall b_i
\]

(22) (23)

and so relation (21) is surely verified.

In the case \( (ne2) \) the individual deviation depends on the possible policies of the single bidders since we have that \( e_c = 0 \) so from this condition we cannot derive any incentive for the bidders to deviate. In order to understand under which conditions the case \( (ne2) \) can occur we therefore examine a more general case and so under which conditions a bidder is better off if he pays the fee than if he attends the auction.

A bidder \( b_i \) has indeed the following possibilities\(^{15} \):

(1) he pays the fee \( f \) and has an utility\(^{16} \) \( u_i^p = m_i - f \);

(2) he does not pay and attend the auction and so:

(2a) he has an utility \( u_i^l = x_i - m_i \) if he loses the auction,

(2b) he has an utility \( u_i^w = m_i - \frac{x_i}{x_i + X'} \) if he wins the auction.

From the case (1) we derive the first constraint since we have that if \( u_i^p < 0 \) then \( b_i \) does not pay the fee and attends the auction. This requires that:

\[
u_i^p = m_i - f \geq 0
\]

or:

\[
f \leq m_i
\]

(24) (25)

If condition (25) is violated for every \( b_i \) so that we have:

\[
f > m_i
\]

(26)

for every \( b_i \) we have that no bidder pays the fee. In this way we have that if \( f > \max\{mi\} \) or if \( f \) is very high no bidder pays the fee and so they all attend the auction phase. If \( f \) is assigned a lower value some of the bidders prefer to pay it whereas others prefer to attend the auction. Lastly, if \( f \) gets a very low value we have that all the bidders may prefer to pay it so that the auction phase is void, without any discordance with what we have seen with regard to \( (ne1) \). Once we have established that relation (24) is satisfied we want to make a comparison with the cases (2a) and (2b) so to understand if a bidder is better off by paying the fee or by attending the auction.

\[^{13}\text{A Nash Equilibrium is a profile of strategies for the bidders where none of them has a gain from an individual deviation ([1, 2, 9, 10]).}\]

\[^{14}\text{This requires } f < m_i \text{ for every } b_i. \text{ We comment on this assumption shortly.}\]

\[^{15}\text{We use the decorations } p, l \text{ and } w \text{ as exponents to denote, in the order, a payment, a loss and a win.}\]

\[^{16}\text{In this case we evaluate the utility under the hypothesis of risk neutrality and so as the difference between the benefit, as represented by the missed allocation of } \zeta, \text{ and the payment as represented by the fee } f.\]

\[f_c = x_1 + e_c = x_1 + mf\]
We can make the following comparisons:

\[ m_i - f \geq x_i - m_i \]  

and:

\[ m_i - f \geq x_i - x_i \frac{x_i}{x_i + X'} \]

If such relations are satisfied then \( b_i \) is better off by paying the fee and so by not attending the auction. From relation (27) we derive:

\[ f \leq 2m_i - x_i \leq m_i \]

(since we have assumed \( x_i \geq m_i \)) and so not really a new constraint since it coincides with relation (25). On the other hand from relation (28) we get:

\[ f \leq x_i \frac{x_i}{x_i + X'} \leq x_i \frac{x_i}{(n-1)x_i} \leq \frac{M}{n-1} \]

since, by the definition of \( x_i \) and \( x_i \), we get \( X = x_i + X' \geq (n-1)x_i \) and \( x_i \leq M \) for every \( b_i \). From relation (30) we derive that if the fee \( f \) is small enough then the bidders have incentive to pay it otherwise they have incentives to attend the auction. From this we may derive that if \( A \) fixes \( f \) high enough (for instance \( f = M/2 \)) he can be sure to have a non void auction even if some bidders may prefer to pay the fee \( f \).

VII THE POST AUCTION PHASE

1) Introductory remarks

In the simplest case, when the auction phase is over, the allocation is performed by the bidders on the basis of the values \( m_i = d_i \) \( i \) only. This way of proceeding is based on the assumption that the bidders are independent and so that the allocation damages only each individual bidder and neither other bidders nor any other of the actors of the set \( S \) (the supporters). In section 7.2 we see how we can account for the interdependence of the bidders and so for the damages among the bidders. We therefore present an algorithm based on a succession of push operations by which a bidder can push \( \zeta \) towards another more preferred bidder (according to the values attributed to the cross damages \( d_{i,j} \)). In this case we have no supporters so that \( S = \emptyset \). In section 7.3 we assume that the bidders are independent but \( S = \emptyset \) and we examine if the supporters can push \( \zeta \) towards another more preferred bidder (according to the values attributed to the cross damages \( D_{i,j} \) by the \( s_i \in S \)) Last but not least in section 7.4 we present an attempt to merge the two approaches since we assume to have both interdependent bidders and \( S = \emptyset \).

2) The interaction among the bidders

Definition 7.1 (The added parameters) In addition to the parameters we have seen in section 3 and the assumptions we have made in section 4 we introduce the following parameters for every bidder \( b_i \):

- \( d_{i,j} \geq 0 \) is the damage that \( b_i \) receives if it is allocated to \( b_j \);
- \( c_{i,j} \geq 0 \) is the contribution that \( b_i \) is willing to pay to \( b_j \) to have him accept the allocation of 

Observation 7.1 It is obvious that \( m_i = d_i \) and \( c_{i,j} = 0 \).

Before going on we recall that the auction phase ends with the allocation of to \( b_1 \) who receives a compensation equal to \( x_1 \). We can define the due payment that \( b_1 \) receives from every bidder \( b_i \neq b_1 \) as:

\[ \sigma_{i,1} = \frac{x_i}{X} \]

(with \( X = \sum_{j \neq 1} x_j \)) so that we have:

\[ \Sigma_1 = \sum_{i \neq 1} \sigma_{i,1} = x_1 \]

We can also define:

\[ \Sigma_j = \Sigma_1 - \sigma_{j,1} \]

(33)

We use this to be used shortly.

Mechanism 7.1 In this case the mechanism has the following structure:

- possible pre auction phase,
- auction phase,
- allocation and compensation phase, - reallocation phase.

From the allocation and compensation phase \( b_1 \) would get, from the members of \( N_1 = N \setminus \{1\} \) the commitments of payment \( \sigma_{1,1} \) that form the compensatory sum \( \Sigma_j \), whereas the reallocation phase depends on the values \( d_{i,j} \). When the allocation phase is over, \( b_1 \) orders the \( d_{i,j} \) \( \forall j \neq 1 \) with regard to \( d_{1,1} = m_1 \). We can have two cases:

- \( d_{1,1} < d_{i,j} \) \( \forall j \neq 1 \) so \( b_1 \) is satisfied and no reallocation is required;
- \( \exists J_1 \subseteq N_1 \) such that \( \forall j \in J_1 \), \( d_{1,j} < d_{1,1} \).

In the former case the mechanism ends and \( b_1 \) receives the commitments at payment as effective compensations from the other bidders. In the latter case \( b_1 \) may negotiate a reallocation with the members of \( J_1 \) that he orders in increasing order of the damages \( d_{i,j} \). We note that for any \( b_j \) with \( j \in J_1 \) we define as \( \bar{e}_{i,j} - d_{1,1} - d_{1,j} \) the maximum contribution that \( b_j \) is willing
to have him accept $\zeta$ whereas with $c_{1,j} < \bar{c}_{1,j}$ we denote the current value of this contribution.

**Algorithm 7.1** The attempt of reallocation may proceed along the following steps:

1. $b_1$ defines $J_1$;
2. we have two cases:
   - (2a) $J_1 = \emptyset$ so go to (5);
   - (2b) $J_1 \neq \emptyset$ so go to (3);
3. $b_i$ contacts (in the order) a $b_j$ with $j \in J_i$ and offers him a further compensation $c_{1,j} < \bar{c}_{1,j}$ so that $b_j$ would get $\Sigma = \Sigma + c_{1,j}$;
4. at this point we have two cases:
   - (4a) $b_j$ accepts and so becomes the new $b_1$ with $\Sigma = \Sigma + c_{1,j}$; go to (1);
   - (4b) $b_j$ refuses so we have two cases:
     - (4b1) there is one more $b_l$ that can be contacted so go to (3);
     - (4b2) there is no $b_l$ to contact so the procedure ends with a failure; go to (5);
5. end;

The operation at step (3) is a push operation through which the current $b_i$ tries to allocate $\zeta$ to some other bidder $b_j$ having a benefit equal to $d_{i,1} - d_{i,j} - c_{1,j}$. Such procedure may either succeed or fail. For it to succeed the current $b_i$ must accept the proposal of $b_j$. It is easy to see that $b_j$ accepts if the following conditions are verified:

(a) $\Sigma \geq m_j$

(b) $d_{s,1} \geq d_{s,j}$

If condition (a) is violated $b_j$ surely refuses the push proposal whereas if the condition (b) is violated $b_j$ can accept $\zeta$, with a risky decision, if he is sure he can push it to some other bidder $b_k$ such that $d_{j,k} < d_{s,1} < d_{j,j}$. The procedure has the following termination conditions:

- when no bidder accepts a push proposal from the current $b_i$;
- when for a bidder $b_i$ we have $J_i = \emptyset$ so the currently losing bidder is satisfied with the allocation;
- when there would be a cycle.

The last case deserves some more comments. If we have, avoiding to rename the successive losing bidders, the following succession of exchanges:

$$b_1 \rightarrow b_2 \rightarrow b_k \rightarrow \cdots \rightarrow b_k \rightarrow b_1$$

we have a cycle that could even give rise to a money pump for the initial $b_i$. To prevent this from occurring we impose a cut on the cycle so that the final accepting bidder must be $b_i$. This fact requires the recording of the various passages so to detect any cycle and to apply the correcting action.

3) **The presence of the supporters**

In this case we make the following assumptions:

- the bidders are independent so we have $d_{s,j} = 0 \forall i \neq j$;
- we have $s$ supporters $s_i \in S$ so that for each $s_i$ we have the damages $D_{s,j}$ that he receives from the allocation of $\zeta$ to each bidder $b_j$. **Mechanism 7.2** Also in this case (see section 7.2) the mechanism has the following structure:
- possible pre auction phase,
- auction phase,
- allocation and compensation phase,
- reallocation phase.

The reallocation is driven, in this case, by the members of $S$ with their values $D_{s,j}$. We can consider $S$ as partitioned\(^\text{17}\):

$$S = A \cup D$$

where:
- $A$ is the set of the $s_i$ that agree with the allocation of $\zeta$ to $b_1$ so that $s_i \in A$ if and only if $D_{s,i} < D_{s,j}$ for every $b_j \neq b_i$;
- $D$ is the set of the $s_i$ that disagree with the allocation of $\zeta$ to $b_1$ so that $s_i \in D$ if and only if\(^\text{18}\) $s_i$ exists at least a bidder $j_i \neq 1$ such that $D_{s,i} < D_{s,j}$.

\(^\text{17}\)In a classic way we have $S = A \cup D$ and $A \cap D = \emptyset$. \(^\text{18}\)We note that every $s_i \in D$ may have his own $j_i$.
We can have the following cases:

(1) $A = S$ and $D = \emptyset$ so no reallocation is required;
(2) $A = \emptyset$ and $D = S$ so every $s$, has at least a more preferred allocation;
(3) $A = \emptyset$ and $D \neq \emptyset$.

In the case (1) the procedure is obviously over.

In the case (2) for every $s_i \in D$ we can partition $N$ as $N = L_i \cup \{ b_1 \} \cup U_i$ where:

- $L_i$ identifies the bidders that cause to $s_i$ a lower damage than $b_1$ or the more preferred bidders;
- $U_i$ identifies the bidders that cause to $s_i$ a greater damage than $b_1$ or the less preferred bidders.

We can have two cases:

- $\cap_s L_i = \emptyset$,
- $\cap_s L_i \neq \emptyset$

In the former case no compromise is possible among the members of $D$ so the allocation of $\zeta$ at the current $b_1$ is unchanged. In the latter case we can have two sub cases. In the former sub case we have $\cap_s L_i = b_1$ so the members of $D$ offer to $b_1$ both $\Sigma_s$ (see section 7.2) and $\gamma_j = x_j - \Sigma_s$ to be shared proportionally among the members of $D$ as:

$$
\gamma_j = x_j \sum_s (D_{i,1} - D_{i,j})
$$

We note that a proposal to $b_j$ is feasible only if, for each supporter $s_i$, the following feasibility condition holds:

$$
\gamma_{i,j} \leq D_{i,1} - D_{i,j}
$$

If condition (37) is violated for at least one supporter then no proposal can be made so the $S$s must consider another of the available bidders, if they have one, otherwise the procedure ends with a failure. If $b_j$ accepts we have a new allocation otherwise the procedure ends with a failure and the allocation is unchanged. For the conditions of acceptance for $b_j$ we refer to section 7.2. In this case $b_j$ accepts if the offered total compensation is enough to cover the damage $m_{j}$ from the allocation of $\zeta$ since the bidders are assumed to be independent. In the latter sub case we have $L = \cap_s L_i \subset N$ so we identify a set of $l = |L|$ elements. In this case the members of $D$ can use the Borda method\(^9\) ([12, 13]) on such elements so to define the Borda winner (be it $b_j$) and apply to it what we have seen for the single outcome sub case. In the case of a tie on the Borda winners one of such winners can be selected at random since they can be seen as equivalent alternatives. If the new allocation is feasible and the Borda winner accepts the procedure is over otherwise the members of $D$ discard him and repeat the procedure on the reduced set $L \setminus \{ b_j \}$ until one of the bidders accepts (so the procedure ends with success) or there is no more Borda winners to be contacted so that the procedure ends with a failure. In the case (3) we have:

- $\forall s_i \in A$ $b_1$ is the best choice;
- $\forall s_i \in D$ there are preferred choices to $b_1$.

If, for each $s_i \in D$, we define the set $L_i = \{ j \in N \mid D_{i,j} < D_{i,1} \}$ we can define the set $L = \cap s_i \in D L_i$ so that we have three cases:

(a) $|L| = 0$,
(b) $|L| = 1$,
(c) $|L| > 1$.

In the case (a) no reallocation is possible since there is no possible compromise among the members of $D$ that are not able to agree on a feasible alternative to $b_1$. In the case (b) we have a $b_j$ (with $j \in N$) that is better than $b_1$ for the members of $D$. The members of $D$ can proceed as follows:

- each $s_i \in D$ evaluates his individual gain $D_{i,1} - D_{i,j}$;
- they evaluate the collective gain $\Gamma_i = \sum_{s_i \in D} (D_{i,1} - D_{i,j})$;
- they ask to the member of $A$ how much they (as a whole) want to be paid to switch from $b_1$ to $b_j$, be it $\rho_{i,j}$. If the total of $\rho_{i,j}$ and the sum that the $D$ have to pay to $b_j$ (that accounts also of the payments of the other bidders but $b_1$) to have him to accept $\zeta$ is lower than $\Gamma_i$ the reallocation is feasible and the procedure may end with success otherwise it surely ends with a failure. We note that:
- the reallocation actually succeeds if $b_j$ accepts so if the proposed total compensation cannot be lower than $m_j$;

\(^9\)Given $n$ alternatives the method is based on the fact that each voter assigns $n - 1$ points to the top ranked alternative, $n - 2$ to the second top ranked alternative up to 0 point to the lowest ranked alternative. The points are added together and the alternatives ordered in a weakly descending order (ties are indeed possible) so that the alternative that receives the highest number of points, in absence of ties, is the Borda winner. If we have ties on the top ranked alternatives we can choose one of them at random as the Borda winner.
the sum $\rho_{i,j}$ is defined by the members of the set $A$ through a negotiation and is
proportionally shared among the members of $A$ so that each can compensate the major damages deriving from the new
 allocation.

In the case (c) we have $L \subseteq N$ such that $b_j$ is a better choice than $b_i$ for any $j \in L$. In this case the members of $D$ can use the
Borda method to select the best choice from the set $L$ and use it as in the case (b). If they succeed the procedure is over
otherwise they discard that bidder from the set $L$, choose another bidder from the reduced $L$ (if there is at least one bidder
available) and repeat the procedure. If all attempts fail the procedure of reallocation ends with a failure.

4) Interaction and support

In this section we sketch a possible algorithm that can be used in the case where:

- the bidders are interdependent so that we have, in general, $d_{i,j} \geq 0$ for any $i \neq j \in N$;
- $S \neq \emptyset$ so that we have, in general, $D_{i,j} \neq 0$ for any $s_i \in S$ and $j \in N$.

Mechanism 7.3 Also in this case (see section 7.2) the mechanism has the following structure:

- possible pre auction phase;
- auction phase;
- allocation and compensation phase;
- reallocation phase.

The reallocation depends on both the values $d_{i,j}$ (where $i$ and $j$ identify the bidders) and the values $D_{i,j}$ (where $i$ identify the
supporters and $j$ identify the bidders). In the current version of the proposed algorithm we assume that the sets $B$ and $S$ can act
independently one from the other.

Algorithm 7.2 In this case we can adopt a procedure based on the following steps:

1) the Bs define the set $J_B$ of suitable bidders as we have seen in section 7.2;
2) the Ss define the set $J_S$ of suitable bidders as we have seen in section 7.3;
3) they evaluate the set $J = J_B \cap J_S$;
4) if $J = \emptyset$ go to 9;
5) if $J \neq \emptyset$ order $J$;
6) select the best $b_j$ from $J$, $J = J \setminus \{b_j\}$;
7) $b_j$ is contacted and he is offered a compensation;
8) $b_j$ can:
   (8a) accept so he gets $\zeta$ and the compensation; go to 9;
   (8b) refuse so that if $J \neq \emptyset$ go to 6 else go to 9;
9) end;

Observation 7.2 The steps (1) and (2) are simultaneous moves in the sense of Game Theory ([9, 10, 11]). The steps (4) and
(8b) define the termination conditions with failure. At the step (8b) the contacted bidder has refused so that, if $J \neq \emptyset$, the mem-
ers of $B$ and $S$ have another bidder to contact otherwise the procedure must end with a failure. On the other hand, at step (4), if
$J = \emptyset$ the procedure never effectively starts since the two sets $B$ and $S$ have no common bidder to whom propose the
allocation. At the step (5) the bidders of the set $J$ are ordered from the best to the worst by applying the Borda method to
the following preference profiles:
- the one produced by the members of $B$ over the set $J$ that derives from the ordering on the set $J_B$;
- the one produced by the members of $S$ over the set $J$ that derives from the ordering on the set $J_S$.

The use of the Borda method avoids the carrying out of direct comparisons between the evaluations of the bidders through the
use of scores that account for the position of each bidder in the corresponding ordering. If the resulting profile contains tied
alternatives they can be contacted in any order since they are seen as equivalent from both the members of $B$ and the members of

Observation 7.3 At the step (7) it is necessary to collect a sum equal to $\Sigma$ so that the members of $B$ must collect a
sum $c_B$ and the members of $S$ must collect a sum $c_S$ such that:
- the offer $\Sigma$ to $b_j$ is enough to compensate him for the allocation of $\zeta$ and so together with what the bidders already
  committed to pay to $b_j$, is not lower than $x_j$ or $\Sigma \geq x_j - \Sigma_j$;
- the sum is proportionally subdivided between the two sets $B$ and $S$ as, respectively:

$$c_B = \frac{|B| \Sigma}{|B| + |S|}$$

If $|J| = 1$ the proposed ordering operation proves obviously useless since there is only one bidder to be contacted.
and:

\[ c_S = \frac{|S|}{|B| + |S|} \sum d_{i,j} - d_{i,j} \]  

- the sum \( c_b \) is to be shared among the members of \( B \) proportionally according to ratios:

\[ \frac{d_{i,j} - d_{i,j}}{\sum_{i \neq j} (d_{i,j} - d_{i,j})} \]  

- the sum \( c_S \) is to be shared among the members of \( S \) proportionally according to ratios:

\[ \frac{D_{i,j} - D_{i,j}}{\sum_{i \neq j} (D_{i,j} - D_{i,j})} \]

VIII CONCLUDING REMARKS AND FUTURE PLANS

In this paper we presented the structure of a negative auction mechanism under the form of a basic mechanism together with some possible extensions. The extensions include both a pre auction phase and a post auction phase: the first aims at reinforcing the requirement of individual rationality\(^\text{21}\) whereas the latter aims at describing possible interactions among the bidders and the supporters. The proposed extensions are still under development so that the full formal characterization is under way. One of the refinement we are planning to introduce, in the case of the interactions among the bidders without supporters (see section 7.2), is the use of pull operations (in addition to the push operations) through which a set of bidders distinct from the current losing bidder can try to pull the allocation of \( \zeta \) towards other more preferred bidders by sharing among themselves the cost of this switching between bidders. A push operation can, indeed, be executed only by the currently losing bidder so that, if he is satisfied with the allocation, no reallocation is possible though some other bidders may wish to pay him to have the item to be pulled to another and more preferred bidder. Other future plans include the relaxations we have listed in section 4 so that we plan to examine what happens if we assume that:

- the bidders are risk adverse so that they prefer either to pay the fee or to pay a fixed amount for not getting \( \zeta \) for sure than attending the auction with the risk of getting \( \zeta \) though together with a compensatory sum;
- the evaluations are either common or interdependent among the bidders and in any way may vary either after the pre auction phase (if the associated values are common knowledge) or after the auction phase itself if a post auction phase is present;
- the bidders are asymmetric so we can have different intervals \([0,M_i]\) and different functions \(F_i\) and \(f_i\) for each bidder \(b_i\).

Last but not least we are planning to see what changes we may have in the auction phase if the sum \( e_i \) is a common knowledge among the bidders before they attend the auction phase. As a first approximation we can expect that if the \( k \) attending bidders know the value of \( m \) (and so the number of the bidders who paid the fee) they may be willing to bid less than \( m \), since each of them may consider to have a fixed compensation equal to \( m f_i \), in case of loss, and so he may wish to increase the probability of losing the auction and such an increase may be obtained by simply bidding less than \( m \).

IX REFERENCES

4) Lorenzo Cioni. An inverse or negative auction. Technical Report TR 10-17, Computer Science Department, November 2010.

\(^{21}\)A mechanism satisfies the property of individual rationality ([3], [7], [9]) if the involved players do not have a negative utility from attending to it and so have some incentives from attending the mechanism.