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An Approximation Algorithm for Multi-unit Auctions: Numerical and Subject Experiments*

Satoshi Takahashi† Yoichi Izunaga‡ Naoki Watanabe§

November 3, 2017

Abstract

In multi-unit auctions for a single item, the Vickrey-Clarke-Groves mechanism (VCG) attains allocative efficiency but suffers from its computational complexity. Takahashi and Shigeno (2011) thus proposed a greedy based approximation algorithm (GBA). This paper reports that in a subject experiment there was truly a difference in efficiency rate but no significant difference in seller's revenue between GBA and VCG. It is not clear in theory whether each bidder will submit his or her true unit valuations in GBA. We show, however, that in a subject experiment there was no significant difference in the number of bids that obey "almost" truth-telling between GBA and VCG. As for individual bidding behavior, GBA and VCG show a sharp contrast when a human bidder competes against machine bidders; underbidding was observed in GBA, while overbidding was observed in VCG. Some results in a numerical experiment are also provided prior to reporting those observations.

Keywords: multi-unit auctions, approximation algorithm, experiment
JEL Classification: C92, D44, D82

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1 Introduction

In multi-unit auctions for a single item, the Vickrey-Clarke-Groves mechanism (VCG) attains allocative efficiency but suffers from its computational complexity. In fact, the item allocation problem is known to be $\mathcal{NP}$-hard, and thus it is necessary for us to apply some approximation algorithm to that problem. Kothari et al. (2005) considered the item allocation problem in reverse auctions as a generalized knapsack problem and proposed a greedy based 2-approximation algorithm with $\mathrm{O}(\ell^2)$ time, where ℓ is the total sum of numbers of bidders' anchor values. As far as non-reverse auctions are concerned, however, their algorithm does not necessarily return a solution the approximation ratio of which is not bounded by two. (We can provide such an example upon request.) Takahashi and Shigeno (2011) thus proposed another greedy based 2-approximation algorithm (GBA) with $\mathrm{O}(\ell(\log n + l_{\max}))$ time, where $l_{\max}$ is the maximum number of anchor values among those of bidders.[1]

In GBA, the highest unit bidder is tentatively given the unit and the other unit bids of the tentative winner are updated in the process for determining the final item allocation. This paper reports that in a subject experiment there was truly a difference in efficiency rate but no significant difference in seller's revenue between GBA and VCG. It is not clear in theory whether each bidder has an incentive to submit his or her true unit valuations in GBA. In the subject experiment there was no significant difference in number of bids that obey "almost" truth-telling between GBA and VCG. As for individual bidding behavior, GBA and VCG show a sharp contrast when a human bidder competes against machine bidders; underbidding was observed in GBA, while overbidding was observed in VCG. Some results in a numerical experiment are also provided prior to reporting our main observations.

In the numerical and subject experiments, it is assumed that for all bidders, each unit valuation is drawn independently of the other unit valuations, i.e., in random order. We might alternatively assume that unit valuations are given to each bidder in monotone non-increasing order. In a preliminary experiment for VCG conducted prior to our main sessions, however, the standard deviation of seller's revenue observed in monotone non-increasing order of unit valuations is much larger than the one observed in random order of those. We thus conducted the experiments with unit valuations which were drawn in random order.

[1] Takahashi and Shigeno (2011) developed another 2-approximation algorithm, which is based on Dyer's polynomial time algorithm (Dyer, 1984), and they showed in a numerical experiment that the GBA computed faster and approximated better than that alternative algorithm.

The rest of this paper is organized as follows. Section 2 introduces the model of multi-unit auctions for a single item and describes how GBA and VCG derive allocations of the item. Section 3 displays the results of a numerical experiment on computation time and efficiency rate under the assumption of truth-telling bidding. Section 4 shows our main observations in a subject experiment. Section 5 notes some remarks, referring to a preliminary experiment for VCG and other papers related to our results.

2 The model

This session concisely describe the the Vickrey-Clarke-Groves mechanism (VCG) and its greedy base 2-approximation algorithm (GBA).

2.1 VCG mechanism

Consider a multi-unit auction for a single item, where a seller wishes to sell M units of a single item and solicits bids from n buyers. Let $N = \{1, ..., n\}$ be the set of buyers (bidders). For each bidder $i \in N$, denote his or her anchor values on the quantity by $\{d_i^k \mid k = 0, ..., \ell_i\}$, where $d_i^{k-1} < d_i^k$ for all k with $1 \leq k \leq \ell_i$, and denote his or her unit bids by $\{b_i^k \mid k = 1, ..., \ell_i\}$, where b_i^k is a buyer price in half-open range $(d_i^{k-1}, d_i^k]$ for $k = 1, ..., \ell_i$. It is assumed that $d_i^0 = 0$ and $d_i^{\ell_i} \leq M$ for every bidder $i \in N$. Each bidder i has a list of his or her anchor values and unit bids, i.e., $\{d_i^k \mid k = 0, ..., \ell_i\}$ and $\{b_i^k \mid k = 1, ..., \ell_i\}$. Let $\ell = \sum_{i \in N} \ell_i$.

Define bidder i's bid function: $\mathbb{R}_+ \to \mathbb{R}$ by

$$B_i(y) = \begin{cases} b_i^k \cdot y & (d_i^{k-1} < y \leq d_i^k, k = 1, ..., \ell_i), \\ 0 & (y = d_i^0, y > d_i^{\ell_i}). \end{cases} \quad (1)$$

Figure 1 illustrates an example of the bid function. For each bidder $i \in N$, denote his or her unit valuations by $\{v_i^k \mid k = 1, ..., \ell_i\}$. Define bidder i's valuation function $V_i : \mathbb{R}_+ \to \mathbb{R}$ by

$$V_i(y) = \begin{cases} v_i^k \cdot y & (d_i^{k-1} < y \leq d_i^k, k = 1, ..., \ell_i), \\ 0 & (y = d_i^0, y > d_i^{\ell_i}). \end{cases} \quad (2)$$

A vector $\boldsymbol{x} = (x_1, x_2, \ldots x_n)$ that satisfies $\sum_{i \in N} x_i \leq M$ and $x_i \geq 0$ for any $i \in N$ is called an allocation, where x_i is the units of the item assigned to bidder $i \in N$ in the allocation.

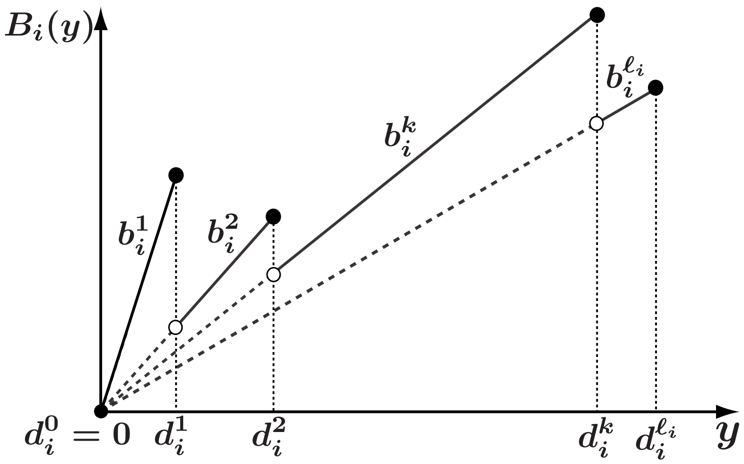

Figure 1: A bid function. The unit bids represent the gradients of the bid function, and the anchor values stand for its discontinuous points.

An item allocation problem $(AP)_B$ is to find allocations that maximize the total amount of bids is formulated by

$$(AP)_B \left| \begin{array}{ll} \text{maximize} & \sum_{i \in N} B_i(x_i) \\ \text{subject to} & \sum_{i \in N} x_i \leq M \\ & x_i \geq 0 \;\; (\forall i \in N). \end{array} \right. \tag{3}$$

Another problem $(AP)_V$ is formulated in the same way by

$$(AP)_V \left| \begin{array}{ll} \text{maximize} & \sum_{i \in N} V_i(x_i) \\ \text{subject to} & \sum_{i \in N} x_i \leq M \\ & x_i \geq 0 \;\; (\forall i \in N), \end{array} \right. \tag{4}$$

in order to find efficient allocations that maximize the total amount of valuations.

The payment scheme is as follows. Denote by $\boldsymbol{x}^*$ an optimal solution of $(AP)_B$. Let $\boldsymbol{x}^{-j}$ be an optimal solution of the following restricted item allocation problem $(AP)_B^{-j}$ with the set of bidders $N^{-j} = N \setminus \{j\}$.

$$(AP)_B^{-j} \left| \begin{array}{ll} \text{maximize} & \sum_{i \in N^{-j}} B_i(x_i) \\ \text{subject to} & \sum_{i \in N^{-j}} x_i \leq M \\ & x_i \geq 0 \;\; (\forall i \in N^{-j}). \end{array} \right. \tag{5}$$

In the VCG, bidder j's payment p_j is determined by

$$p_j = \sum_{i \in N^{-j}} B_i(x_i^{-j}) - \sum_{i \in N^{-j}} B_i(x_i^*). \tag{6}$$

Under this payment scheme, it is the dominant strategy for each bidder to truthfully tell his or her unit valuations by bidding; Thus, the optimal solutions of $(AP)_B$ maximize the total amount of valuations in $(AP)_V$. We have to, however, compute as many as O(n) times in $(AP)_B$ to find an optimal solution. It becomes more difficult to compute an allocation and payments in realistic time, as the number of either bidders or units of the item is larger. We thus need to find faster approximation algorithms to solve the item allocation problem.

2.2 Greedy based algorithm

This subsection describes a GBA which was proposed by Takahashi and Shigeno (2011). This algorithm uses the slope function $p_i^k : \mathbb{R} \to \mathbb{R}$, for any $i \in N$ and all k with $0 < k \leq \ell_i$. Denote by $p_i^k(y)$ the gradient of bid function B_i between a unit of y and each anchor value d_i^k, i.e.,

$$p_i^k(y) = \frac{(B_i(d_i^k) - B_i(y))}{(d_i^k - y)}. \tag{7}$$

The GBA takes the following process of four steps.

Step 1 Set $x_i = 0$ for any $i \in N$.

Step 2 Find a pair $(i^*,\ k^*)$ such as $p_{i^*}^{k^*}(x_{i^*}) = \max\{p_i^k(x_i) \mid i \in N,\ x_i < d_i^k\}$. If $p_{i^*}^{k^*}(x_{i^*}) \leq 0$, then return $\boldsymbol{x}$, otherwise, update $x_{i^*} = d_{i^*}^{k^*}$

Step 3 If $\sum_{i \in N} x_i < M$, go to Step 2.

Step 4 Make two solutions $\hat{\boldsymbol{x}}$ and $\tilde{\boldsymbol{x}}$ by

$$\hat{x}_i = \begin{cases} x_i & (i \neq i^*), \\ M - \sum_{j \neq i^*} x_j & (i = i^*), \end{cases} \quad \text{and} \quad \tilde{x}_i = \begin{cases} 0 & (i \neq i^*), \\ x_{i^*} & (i = i^*). \end{cases}$$

If $\sum_{i \in N} B_i(\hat{x}_i) > \sum_{i \in N} B_i(\tilde{x}_i)$, then return $\hat{\boldsymbol{x}}$, otherwise, return $\tilde{\boldsymbol{x}}$

The process is initialized in Step 1. In Step 2, GBA finds a pair $(i^*,\ k^*)$ which maximizes the slope function. If GBA stops in Step 2, i.e. $p_{i*}^{k*}(x_{i*}) \leq 0$, no solution can improve the objective value from the current solution. The returned solution is thus optimal. GBA iterates Step 2 until $\sum_{i \in N} x_i \leq M$. In Step 4, GBA makes two solutions $\hat{\boldsymbol{x}}$ and $\tilde{\boldsymbol{x}}$. The residual units $M - \sum_{j \neq i*} x_j$ is allocated to bidder i^* in $\hat{\boldsymbol{x}}$, while no unit is allocated to any bidder $j \in N^{-i*}$ in $\tilde{\boldsymbol{x}}$. GBA compares the objective values of these two solutions and returns the larger one.

The Ausubel auction (Ausubel, 2004) also has a similar process of updating the other unit bids of the tentative winners, although the updates are made in dynamic ascending-bid auctions. The GBA makes the updates in static auctions, as shown above. This feature of GBA reduces computation time when the number of bidders or the total sum of numbers of bidders' anchor values. The GBA finds an approximate solution of $(AP)_B$, and the objective value obtained by the approximate solution is at least a half of the optimal objective value in $(AP)_B$. These are formally stated as the following theorem.

Theorem 1 (Takahashi and Shigeno, 2011) *GBA finds a 2-approximation solution of* $(AP)_B$ *in* $O(\ell(\log n + l_{\max}))$ *time, where* $l_{\max} = \max_{i \in N} \ell_i$*.*

The intuition of Theorem 1 on computation time is explained as follows. The number of iteration in GBA is clearly at most ℓ. If we store $\max\{p_i^k(x_i) \mid x_i < d_i^k\}$ for all $i \in N$ in a heap, Step 2 can be performed in $\mathrm{O}(\log n)$. After Step 2, we need to compute $\max\{p_{i^*}^k(x_{i^*}) \mid x_{i^*} < d_{i^*}^k\}$ for updated x_{i^*}, which runs in $\mathrm{O}(\ell_{i^*})$. The total running time of Step 2 is thus bounded by $\mathrm{O}(\log n + l_{\max})$. Therefore, the total running time is bounded by $\mathrm{O}(\ell(\log n + l_{\max}))$.

The payment scheme is as follows. Denote by $\check{\boldsymbol{x}}$ an allocation determined by GBA. Let $\check{\boldsymbol{x}}^{-j}$ be an allocation determined by GBA when the set of bidders is restricted to $N^{-j} = N \setminus \{j\}$. In GBA, bidder j's payment $\check{p}_j$ is determined by

$$\check{p}_j = \sum_{i \in N^{-j}} B_i(\check{x}_i^{-j}) - \sum_{i \in N^{-j}} B_i(\check{x}_i). \tag{8}$$

Under this payment scheme, it is not clear in theory whether each bidder will truthfully submit his or her unit valuations by bidding in GBA. It is, however, shown later that in a subject experiment there was no significant difference in the number of bids that obey "almost" truth-telling between GBA and VCG. The definition of the almost truth-telling bidding is noted later in Section 4.

In this section, we did not explain the intuition of Theorem 1 on approximation ratio. Instead, the approximation ratio of GBA against VCG can be confirmed as well as the computation time in a numerical experiment, the results of which are shown in the next section.

3 A numerical experiment

This section displays the results of a numerical experiment which functions as a control group against part of the observations in the corresponding subject experiment, where bidders are all truth-telling machine bidders. All computations were conducted on a personal computer with Core i7 CPU (3.4 GHz) and 16GB memory, and the code was written with python 2.6.5. (The code is available upon request.) We fix n or M for instances, varying the values of the other variables.

For each bidder $i \in N$, the number of his or her anchor values, ℓ_i, was independently drawn from the set of 15 integers $\{1, \ldots, 15\}$ with equal probability. Then, for any bidder $i \in N$, anchor values, the number of which is ℓ_i, were drawn independently from the set of integers $\{1, \ldots, M\}$ with equal probability, arranged in ascending order, and indexed from 0 to ℓ_i to construct $\{d_i^k \mid k = 0, ..., \ell_i\}$.[2] As is mentioned in Section 1, for any bidder $i \in N$, each unit valuation v_i^k is independently drawn from the set of 100 integers $\{1, \ldots, 100\}$ with equal probability. Both in GBA and in VCG, truth-telling bidders were assumed.

We conducted this numerical experiment by using dynamic programing. Consider an arbitrary ordering on n bidders. For the first k bidders and m units with $0 \leq m \leq M$, define

$$T[k, m] := \max \left\{ \sum_{j=1}^{k} v_(x_j) \mid \sum_{j=1}^{k} x_j \leq m, x_j \geq 0 \ (1 \leq j \leq k) \right\}, \tag{9}$$
$$(k \in N, 0 \leq m \leq M).$$

The following recurrence relation describes how to solve problem (9) with dynamic programing.

$$T[0, m] = 0, \ (0 \leq m \leq M). \tag{10}$$

$$T[k, m] = \max \left\{ \begin{array}{l} T[k-1, m] \\ \max_{1 \leq z \leq m} \{T[k-1, m-z] + v_k(z)\} \end{array} \right\}, \tag{11}$$
$$(k \in N, 0 \leq m \leq M).$$

The optimal objective value of $(AP)_V$ can be obtained by

$$\max_{0 \leq m \leq M} \{T[n, m]\}. \tag{12}$$

[2]There was no case of a tie observed in this numerical experiment.The description of a tie-break rule is thus omitted here.

Let $n = 50$ or $M = 200$. Tables 1 and 2 show the averages of computation time and approximation ratio in GBA against VCG, where the approximation ratio is defined by

$$\frac{\text{approximate value of } (AP)_V}{\text{optimal value of } (AP)_V}, \tag{13}$$

which actually measures the efficiency rate of GBA against VCG. In Tables 1 and 2, VCG is denoted as EXACT in order to indicate that the optimal values are used there. In subject experiments, human bidders do not necessarily behave in such a way that the optimal values of $(AP)_V$ are derived even in VCG. Figures 2 and 3 depict the average computation time which correspond to the instances listed in Tables 1 and 2, respectively.

Table 1 shows that as the number of units of the item increases, the computation time in VCG remarkably increases, whereas the increase in computation time is suppressed in GBA. When the number of bidders, n, does not change, the expected values of $\ell = \sum_{i \in N} \ell_i$ and $l_{\max}$ also do not change, respectively. The expected value of the upper bound of computation time in GBA, $O(\ell(\log n + l_{\max}))$, is then kept intact, as far as n is fixed.

As the number of bidders, n, increases, the upper bound of computation time, $O(\ell(\log n + l_{\max}))$, is expected to go up in GBA, because the expected value of $\ell = \sum_{i \in N} \ell_i$ increases, although $l_{\max} \leq 15$ always. Even in this case, Table 2 shows that GBA finds the solution of $(AP)_B$ much faster than VCG.

Note that the approximation ratios shown in Tables 1 and 2 are bounded by 0.62 and 0.92. As is mentioned above, those ratios actually measures efficiency rates of GBA against VCG. In the next section, we show that the average rates of efficiency in GBA observed in the subject experiment were more than 0.93, although there was truly a difference between GBA and VCG. We also show, however, that there was no significant difference in seller's revenue between GBA and VCG. The rate of efficiency is defined with the observed value and the optimal value (EXACT) both in GBA and in VCG.

Table 1: Averages of computation time and approximation ratio in GBA against VCG. Each instance is represented by the numbers of bidders and units, i.e., (n, M), where $n = 50$. VCG is noted as EXACT. As the number of units of the item increases, the computation time in VCG increases, whereas GBA suppresses the increase in computation time. The expected value of the upper bound of computation time in GBA, $O(\ell(\log n + l_{\max}))$ is kept intact, because n, the expected value of $\ell = \sum_{i \in N} \ell_i$, and the expected value of $l_{\max}$ are not changed.

Instance	Computation time (sec.)		Approx. ratio
	GBA	EXACT	GBA/EXACT
(50,50)	0.00227	0.10300	0.727
(50,100)	0.00201	0.38864	0.736
(50,150)	0.00190	0.83885	0.623
(50,200)	0.00217	1.52568	0.723
(50,250)	0.00202	2.36149	0.633
(50,300)	0.00222	3.40518	0.775
(50,350)	0.00215	4.70473	0.815
(50,400)	0.00203	5.91917	0.874

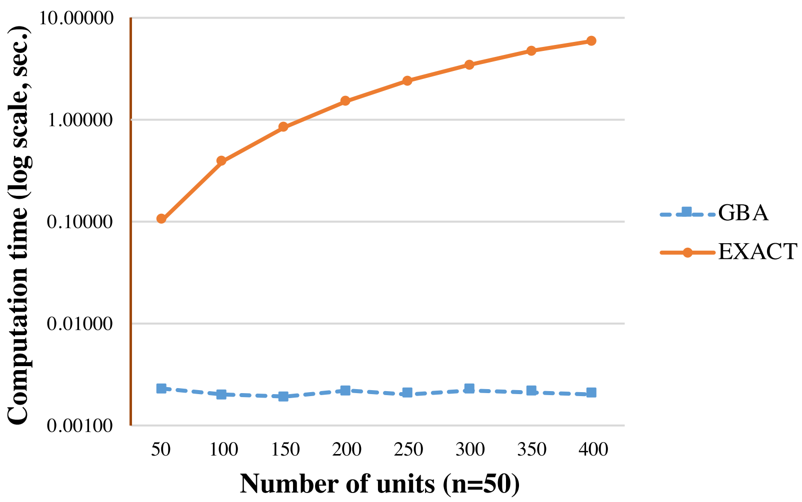

Figure 2: Number of units of the item and computation time. $n = 50$. VCG is noted as EXACT.

Table 2: Averages of computation time and approximation ratio in GBA against VCG. Each instance is represented by the numbers of bidders and units, i.e., (n, M), where $M = 200$. VCG is noted as EXACT. As the number of bidders, n, increases, the upper bound of computation time, $O(\ell(\log n + l_{\max}))$, is expected to go up in GBA, because the expected value of $\ell = \sum_{i \in N} \ell_i$ increases, although $l_{\max} \leq 15$ always. Even in that case, however, GBA completes the computation much faster than VCG.

Instance	Computation time (sec.)		Approx. ratio
	GBA	EXACT	GBA/EXACT
(10, 200)	0.00119	0.70154	0.915
(50, 200)	0.00409	3.44612	0.804
(100, 200)	0.00768	6.81375	0.837
(200, 200)	0.01440	13.54417	0.700
(400, 200)	0.02869	27.49757	0.715
(800, 200)	0.05754	55.84550	0.760
(1000, 200)	0.06933	69.44206	0.760
(5000, 200)	0.34113	348.4999	0.753
(10000, 200)	0.72498	698.56540	0.622

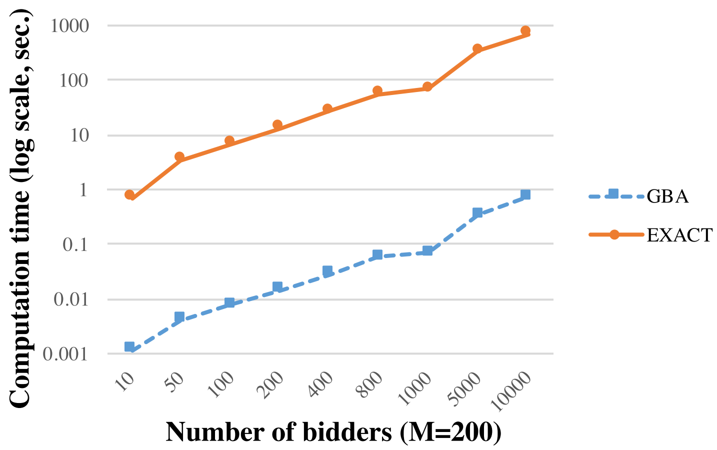

Figure 3: Number of bidders and computation time. $M = 200$. VCG is noted as EXACT.

4 The subject experiment

4.1 Experimental design

In this experiment, 5 units of an item are auctioned off to 3 bidders, where the item is a virtual object, i.e., $n = 3$ and $M = 5$. Each session consists of 20 rounds in total, and 2 sessions are paired; In a session GBA is applied in the first 10 rounds and VCG is applied in the second 10 rounds, and the order of GBA and VCG is reversed in another session. (Every subject thus bids in both treatments, although he or she can participate in only one session. In analysis, the data should be merged in order to cancel the effect of the order of treatments on the results.)

For every bidder i, the number of anchor values is set as $\ell_i = 5$, and thus his or her anchor values are $d_i^0 = 0$, $d_i^1 = 1$, ..., $d_i^5 = 5$. As is mentioned in Section 1, for each bidder i and for each unit of the item, his or her unit valuation for k units of the item, v_i^k ($k = 1, \ldots, 5$), is independently and uniformly distributed over integers between 1 and 200. At the beginning of each round, each bidder i is given his or her unit valuations $\{v_i^k \mid k = 1, ..., \ell_i\}$ by a computer, which are his or her private information. Then, each bidder i submits his or her unit bids $\{b_i^k \mid k = 1, ..., \ell_i\}$. When k units of the item is allocated to bidder i, he or she receives the points that amounts $v_i^k \cdot k$ minus his or her payment.

In each round, there is a 120-second time limit for submitting unit bids. If none of three bidders bids within the time limit, every bidder of those three then obtains zero point for that round. The units assigned to a bidder and his or her payment are shown to the bidder in 5 seconds at the end of each round. The cumulative points of bidders are not shown to them (It is thus prohibited for subjects to take notes throughout the session.

Subjects are informed that they will be paid according to the total points they obtain in 6 rounds (3 from the first 10 rounds and 3 from the subsequent 10 rounds) randomly selected by a computer at the end of each session, with the pre-determined exchange rate in addition to the show-up fee. In this experiment, the exchange rate was 1 point = 1 JPY and the show-up fee was 1500 JPY.

At the beginning of each session, GBA (or VCG) applied in the first 10 rounds is explained with the general instruction. There is an intermission after the first 10 rounds so that VCG (or GBA) applied in the second 10 rounds is explained. Before proceeding to the experiment, subjects play 1 round for practice to familiarize themselves with the software.

4.2 Results

A computerized laboratory experiment was conducted at the University of Tsukuba in Japan. We developed a software which uses python cgi for the experiment. We had 4 sessions in February 2014 and 4 sessions in January 2016. Each session conducted in 2016 involves 8 groups of 3 subjects. At the beginning of each round, all subjects were randomly re-grouped into 8 groups by a computer. Subjects are not informed of who are in the same group. Each session conducted in 2014 involves 8 groups of 1 subject as a human bidder and 2 machine bidders which were programed as truth-telling bidders. At the beginning of each session, each subject was randomly assigned to one of 8 groups by a computer. This assignment was fixed throughout that session.

Subjects were recruited from all over the campus, and undergraduate students whose major is engineering were most populous among them. Once a subject participated in a session, he or she was prohibited to participate in any other sessions for this experiment. Upon arrival, they were provided with a written instruction, and then the experimenter read it around. (The instruction is available upon request.) Subjects could ask questions regarding the instruction by raising their hand and the experimenter gave the answers to those questions privately. Any communication among subjects were strictly prohibited; Thus, their interactions were only through the information they enter in their computer screens. Each session lasted about 100 minutes including the instruction. There was no observation of bidding made after the time limit. Features of the experimental sessions are summarized in Table 3.

Table 3: Features of the experimental sessions.

session no.	machine bidders	show-up fee (JPY)	point-to-JPY ratio	# of subj.	session date	avg. point per subject
1	yes	1500	1.0	8	Feb.13, 2014	513.75
2	yes	1500	1.0	8	Feb.13, 2014	609.63
3	yes	1500	1.0	8	Feb.14, 2014	295.38
4	yes	1500	1.0	8	Feb.14, 2014	169.29
5	no	1500	1.0	24	Jan.30, 2016	510.42
6	no	1500	1.0	24	Jan.30, 2016	641.04
7	no	1500	1.0	24	Jan.31, 2016	284.75
8	no	1500	1.0	24	Jan.31, 2016	583.71

In Table 3, there were some outliers of unit bids in sessions 3, 4, and 7, which were extraordinarily higher than the corresponding unit valuation; Thus, the average points per subject were lower than those in the other sessions. We dropped extreme outliers in our regression analysis of subjects' bidding behavior, the result of which is shown later in this section.

The rate of efficiency in GBA (or in VCG) are defined by

$$\frac{\text{observed value of } (AP)_V}{\text{optimal value of } (AP)_V}, \tag{14}$$

where the observed value of $(AP)_V$ is calculated with an allocation $\boldsymbol{x}$ observed when GBA (or VCG) is applied. The rate of the seller's revenue (profit) in GBA (or in VCG) is defined by

$$\frac{\text{observed total amount of payments}}{\text{optimal total amount of payments}}. \tag{15}$$

The optimal total amount of payments is represented by $\sum_{j \in N} p_j$, where p_j is calculated for each $j \in N$ according to (6). Our main observation is then stated as follows.

Observation 1 *In the subject experiment, there was a difference in efficiency rate but no significant difference in seller's revenue between GBA and VCG.*

Tables 4 and 5 show the average rates of efficiency and seller's revenue (profit) observed in 2014 and 2016, respectively. We analyzed the data taken from the last 5 rounds in each treatment to allow subjects the opportunity to learn better bidding behavior in GBA and VCG. Each treatment had 4 sessions, and there were 8 groups in each session, and thus the sample size is 160 for each treatment. The data were merged for each treatment in order to cancel the effect of the order of treatments on the results. The p-values for the permutation test (perm. test) are reported under each panel which corresponds to the rates of efficiency and seller's revenue, respectively. The null hypotheses on the rates of efficiency was rejected at the 5% significance level with both data taken in 2014 and in 2016. The null hypotheses on the rates of seller's revenue, however, could not be rejected at the 5% significance level with both data taken in 2014 and in 2016.

Table 4: Average rates of efficiency and seller's revenue (profit) in 2014.

	efficiency		profit	
	GBA	VCG	GBA	VCG
mean	0.9341	0.9626	1.0069	0.9828
st.dev.	0.0277	0.0345	0.0651	0.0402
p-value (perm.)	0.0068		0.1703	

Table 5: Average rates of efficiency and seller's revenue (profit) in 2016.

	efficiency		profit	
	GBA	VCG	GBA	VCG
mean	0.9365	0.9737	0.9037	0.8978
st.dev.	0.0302	0.0220	0.0993	0.0775
p-value (perm.)	0.0001		0.8471	

As noted at the end of subsection 2.1, the VCG mechanism, in theory, induces allocative efficiency by providing every bidder with an incentive to submit his or her valuations truthfully for each unit. In Section 3, the numerical experiment suggests that even under the assumption of truth-telling bidding, GBA is inferior to VCG in terms of the efficiency rate measured by (15). Thus, in order to confirm this feature of GBA also in the subject experiment, we counted the number of unit bids which satisfy

$$\frac{|\text{unit value} - \text{unit bid}|}{\text{unit value}} \leq 0.05, \tag{16}$$

and the number of efficiency rates each of which satisfies

$$\text{efficiency rate} \geq 0.95. \tag{17}$$

We say that a unit bid obeys 95% truth-telling when it satisfies (16) and that an auction outcome is 95% efficient when the rate of efficiency satisfies (17). The next observation is similar to the one confirmed in the numerical experiment.

Observation 2 *In the subject experiment, there was no significant difference in number of bids that obey 95% truth-telling between GBA and VCG, whereas there was clear difference in number of 95% efficiency between GBA and VCG.*

Table 6 shows the numbers of 95% truth-telling unit bids and 95% efficiency observed in each pair of 2 sessions. The sample size is 1200 for 95% truth-telling unit bids and it is 80 for 95% efficiency. The p-values for the Fisher exact test (Fisher test) are reported under each panel which corresponds to truth-telling and efficiency. The null hypotheses on 95% truth-telling could not be rejected at the 5% significance level with both data taken in 2014 and in 2016. The null hypotheses on 95% efficiency was rejected at the 5% significance level with both data taken in 2014 and in 2016. Therefore, Observation 2 is consistent with the result in the numerical experiment. Observation 2 also says that in the subject experiment there was no significant difference in number of bids that obey "almost" truth-telling between GBA and VCG, although it is not clear in theory that each bidder will truthfully tell his or her unit valuations by bidding in GBA.

Table 6: Numbers of 95% truth-telling bidding and in 95% efficiency.

	truth-telling		efficiency	
	GBA	VCG	GBA	VCG
sessions 1-2	996	964	57	71
p-value (Fisher)	0.1019		0.0095	
sessions 3-4	963	975	48	68
p-value (Fisher)	0.5690		0.0007	
sessions 5-6	498	527	57	69
p-value (Fisher)	0.2318		0.0325	
sessions 7-8	444	426	52	70
p-value (Fisher)	0.4704		0.0014	

Finally, we report the regression results on the subjects' bidding behavior. For each bidder, each unit valuation is drawn independently of the other unit valuations. We thus analyze the data unit by unit. If the absolute value of a unit valuation minus a unit bid falls within 5% of all those absolute values, we then dropped the data as an outlier for our regression analysis. Tables 7 and 8 show the regression results with the data taken in 2014 and 2016, respectively. Figures 4 to 7 depict unit valuations and unit bids observed in 2014 and 2016, respectively. The coefficients on valuations were less than one and they are statistically significant, except in the session for VCG conducted in 2014.

Observation 3 *In the subject experiment, subjects would underbid, except in the sessions for VCG in which human bidders bid against truth-telling machine bidders.*

Table 7: Results of regression analysis in 2014.

	GBA				
# of units	1	2	3	4	5
Constant	-2.5966	-3.2360	-0.3177	-1.8116	-2.0598
p-value	0.0370	0.0210	0.7930	0.0790	0.0140
Valuation	0.9832	0.9850	0.9500	0.9850	0.9982
p-value	< 0.0001	< 0.0001	< 0.0001	< 0.0001	< 0.0001
R-squared	0.9140	0.8980	0.9050	0.9350	0.9590
	VCG				
# of units	1	2	3	4	5
Constant	-1.6190	-1.0880	-1.1676	-0.9239	-0.3216
p-value	0.0270	0.0450	0.0190	0.1440	0.7950
Valuation	1.0029	1.0069	1.0114	1.0085	1.0233
p-value	< 0.0001	< 0.0001	< 0.0001	< 0.0001	< 0.0001
R-squared	0.9660	0.9800	0.9840	0.9710	0.9030

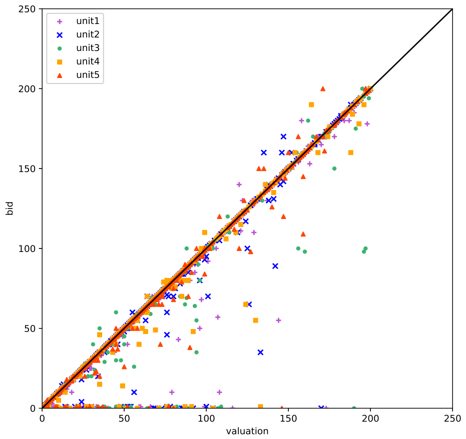

Figure 4: GBA in 2014.

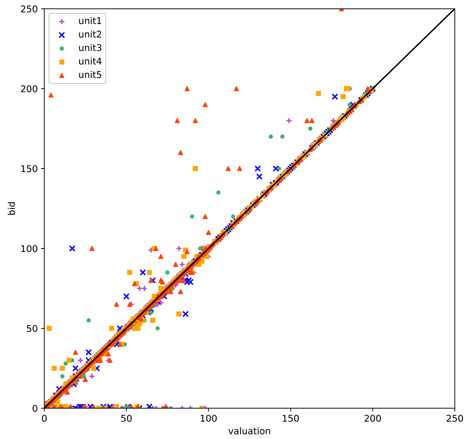

Figure 5: VCG in 2014.

Table 8: Results of regression analysis in 2016.

	GBA				
# of units	1	2	3	4	5
Constant	-1.1523	-3.6660	-2.8788	-4.0178	-6.9879
p-value	0.6980	0.1620	0.3110	0.1490	0.0000
Valuation	0.8618	0.9063	0.8848	0.9154	0.9761
p-value	< 0.0001	< 0.0001	< 0.0001	< 0.0001	< 0.0001
R-squared	0.7060	0.7720	0.7220	0.7580	0.8700

	VCG				
# of units	1	2	3	4	5
Constant	0.7320	-6.3762	-6.5492	-5.3207	-6.4748
p-value	0.8420	0.0440	0.0400	0.0960	0.0050
Valuation	0.7857	0.9030	0.9219	0.9173	0.9693
p-value	< 0.0001	< 0.0001	< 0.0001	< 0.0001	< 0.0001
R-squared	0.5590	0.6940	0.7130	0.7060	0.8170

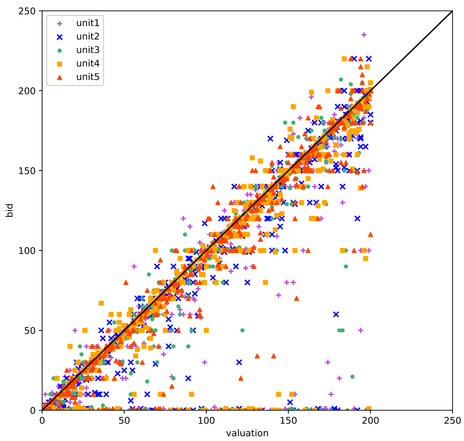

Figure 6: GBA in 2016.

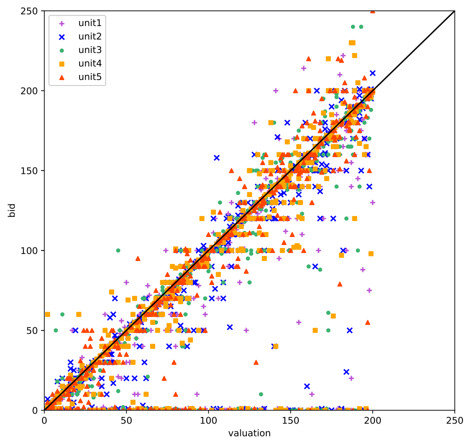

Figure 7: VCG in 2016.

As for individual bidding behavior, GBA and VCG show a sharp contrast when a human bidder competes against machine bidders; underbidding was observed in GBA, while overbidding was observed in VCG.

5 Final remarks

There is little literature on subject experiments which investigated how approximation algorithms of the VCG mechanism work in the multi-unit non-reverse auctions to which Kothari et al. (2005) referred. Kagel and Levin (2001), for instance, studied subjects' bidding behavior in multi-unit auctions, but they imposed a uniform price on all units of the item.[3] We thus carefully prepared for the experimental design. In this paper, it is assumed that for all bidders, each unit valuation is drawn independently of the other unit valuations. As is mentioned in Section 1, we found that it was better for us to do so from a result of a preliminary experiment.

The preliminary experiment was conducted also at the University of Tsukuba. We had 4 sessions on February 13 and 14 in 2015. Each session consists of 20 rounds in total, and 2 sessions are paired; In a session unit valuations were drawn in random order in the first 10 rounds and they were drawn in monotone non-increasing order in the second 10 rounds, and the order of the display of unit valuations was reversed in another session. The other part of the experimental design was completely the same as the one described in this paper. In the data taken from last 5 rounds in each treatment, the average rate of seller's revenue was 0.977 with standard deviation 0.0132 when unit valuations are drawn in random order, whereas it was 1.0564 with standard deviation 0.2581. We will show more detail comparisons between those two treatments in another paper.

At the end, we leave two remarks for future investigation. Chen and Takeuchi (2010) reported underbidding in VCG, although they studied combinatorial auctions. Kagel et al. (2001) conducted an experiment in which a human bidder with flat demand for two units competes against machine bidders each demanding a single unit, and they reported overbidding of each human bidder for both units. It is interesting that Observation 3 is similar to these results, although the direct comparison to them is not appropriate. The other remark is on Observation 2; Not only in VCG but also even in GBA, the number of 95% truth-telling unit bids in the environment of a human budder and two machine bidders is about twice as many as the one in the environment of all human bidders, although it is not clear in theory whether each bidder has an incentive to submit his or her true unit valuations in GBA. Thus, it is an open question to identify some reason why subjects learned such a bidding behavior.

[3] Kagel and Levin (2016) is a comprehensive survey of experimental results in various auctions and mechanisms. Dobzinski and Nisan (2015) showed the latest theory in multi-unit auctions.

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Appendix: Examples in the instruction

In the instruction, we explained GBA and VCG with the following examples.

GBA

Item allocation problem: 5 steps in total. Unit valuations are given as below. Bidders are asked to bid per unit for each unit.

		1	2	3
Bidder 1	valuation	80×1	60×2	55×3
	bid	75×1	55×2	40×3
Bidder 2	valuation	40×1	70×2	65×3
	bid	40×1	63×2	65×3

1. Find the highest unit bid. Give "tentatively" the unit to the highest unit bidder.

2. Update the other unit bids of the highest unit bidder in the following way; The highest unit bid is 75 cast by bidder 1 for 1 unit.

   - updated unit bid for 2 units $= \dfrac{55 * 2 - 75 * 1}{(2-1)} = 35$
   - updated unit bid for 3 units $= \dfrac{40 * 3 - 75 * 1}{3-1} = 22.5.$

		1	2	3
Bidder 1	valuation	80×1	60×2	55×3
	bid		35×2	22.5×3
Bidder 2	valuation	40×1	70×2	65×3
	bid	40×1	63×2	65×3

3. Find the highest (updated) unit bid. Give tentatively the corresponding unit to the highest (updated) unit bidder.
   This bidder is also called a "tentative winner".

4. - If all units are just assigned, the assignment is then implemented.
   - If some units are not assigned, go to step 2.
   - If the number of units is less than the sum of assigned units (there is the "excess demand"), then go to step 5.

   The highest (updated) unit bid is 65 cast by bidder 2 for 3 units. In the first round, bidder 1 was assigned 1 unit as a tentative winner, and thus there is the excess demand. Thus, go to step 5.

5. Choose such an allocation that maximizes the total amount of bids among the allocations of tentative winners.

   - 1 unit to bidder 1 and 2 units to bidder 2.
     Total amount of bids $= 75 * 1 + 63 * 2 = 201$

- 0 unit to bidder 1 and 3 units to bidder 3.
  Total amount of bids $= 65 * 3 = 195$

Choose Allocation 1.

GBA: payment

Payment Determination: in the same way as in Exact VCG.

payment of bidder i (winner) =
(total amount of bids in the auction that excludes bidder i:
65*3 for bidder 1, 75*1+35*2 for bidder 2)
− (total amount of bids in the original auction)
+ (bidder i's bid for the unit assigned to i)

(Allocation 1) $\cdots$ 1 unit to bidder 1 unit and 2 units to bidder 2.

- payment of bidder 1 $= (65 * 3) - 201 + (75 * 1) = 69$
- payment of bidder 2 $= (75 * 1 + 35 * 2) - 201 + (63 * 2) = 70$

Exact VCG

		1	2	3
Bidder 1	valuation	80×1	60×2	55×3
	bid	70×1	55×2	50×3
Bidder 2	valuation	40×1	70×2	65×3
	bid	40×1	60×2	65×3

Choose such an allocation that maximizes the total amount of bids among all possible allocations; (0, 0): 0, (1, 1): 70*1+40*1=110 (1, 0): 70*1=70, (2, 0): 55*2=110, (3, 0): 50*3=150, (0, 1): 40*1=40, (0, 2): 60*2=120: (0, 3): 65*3=195, (1, 2): 70*1+60*2=190, (2,1): 55*2+40*1 =150.

Choose (0, 3). The total amount of bids is 195, which is less than the value GBA gives, i.e., 201.