

An Evolutionary Approach for Studying Heterogeneous Strategies in Electronic Markets

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Overview

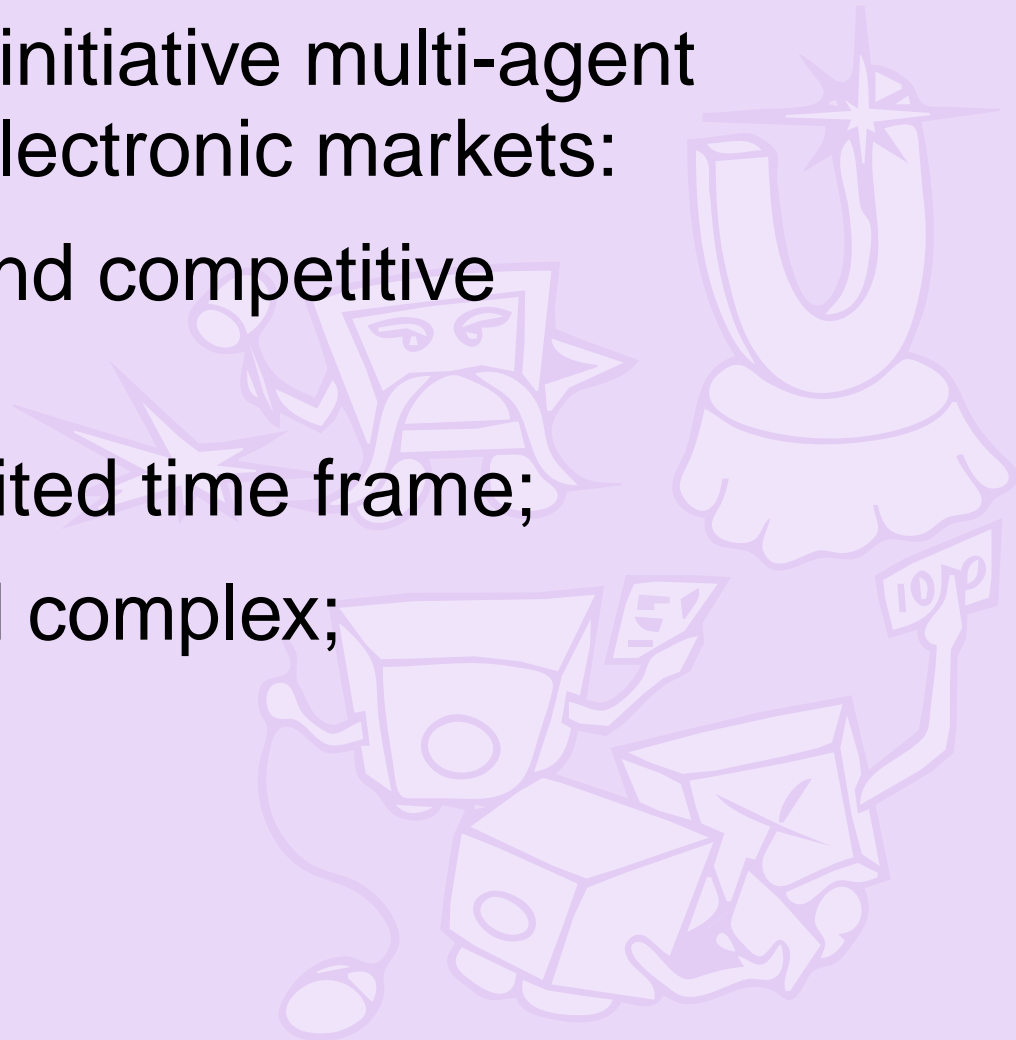
- The problem
- Suggested approach
- Example model and results
- Conclusion



Problem Domain

Automated and mixed-initiative multi-agent systems in emerging electronic markets:

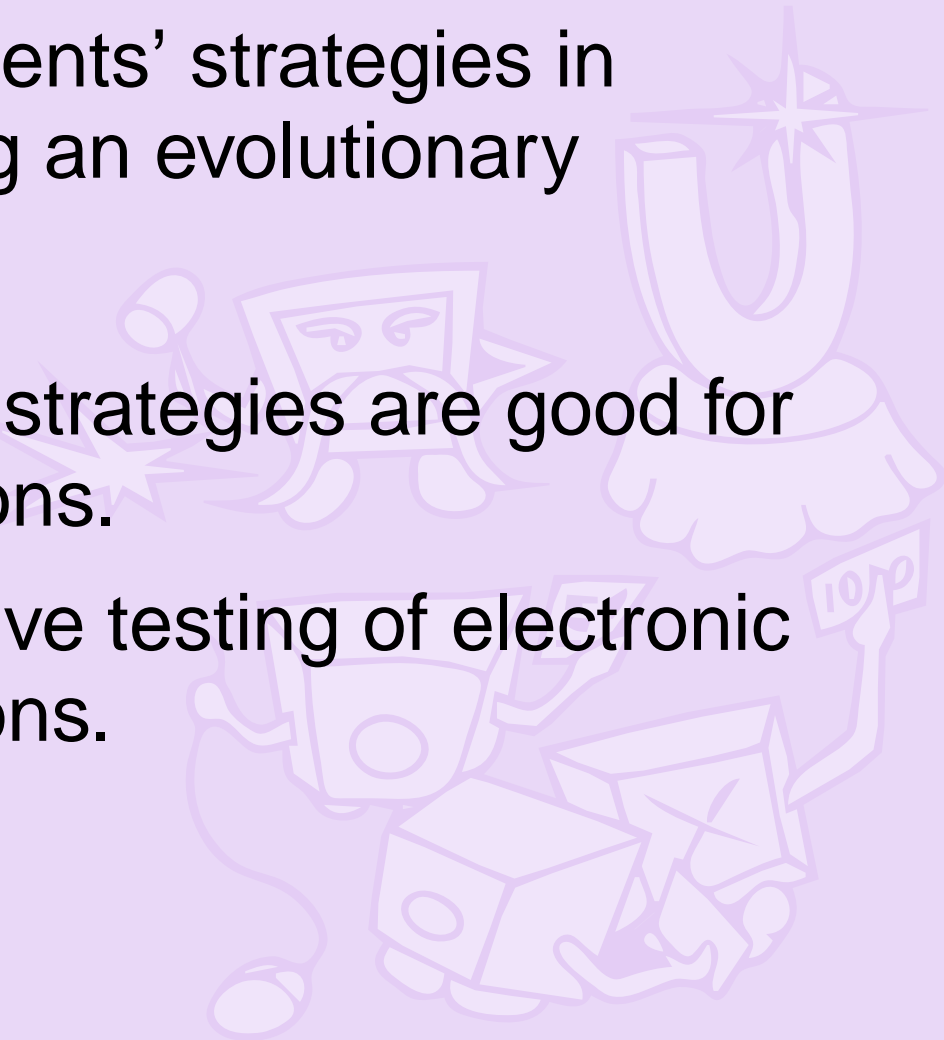
- limited resources and competitive environment;
- dynamic with unlimited time frame;
- heterogeneous and complex;
- open environment.



Objective

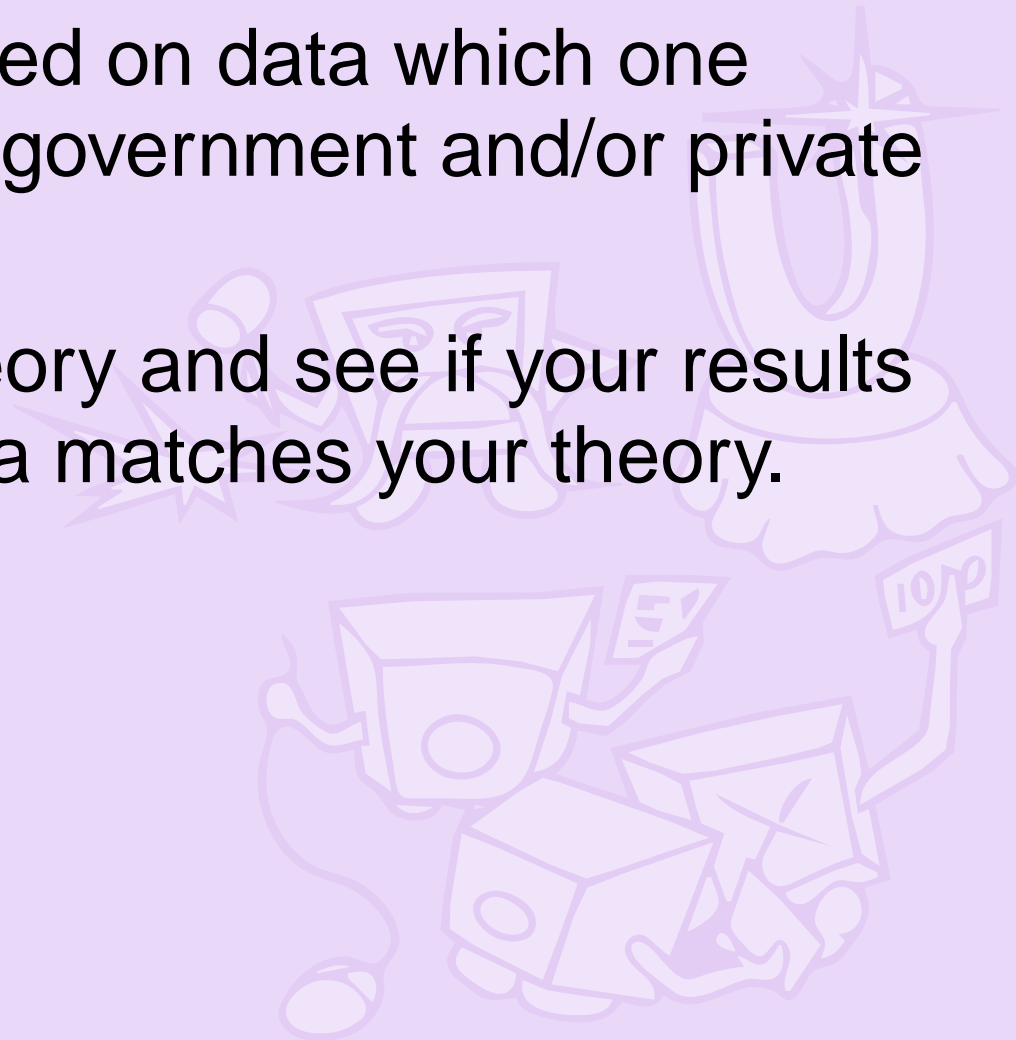
Study performance of agents' strategies in multiagent systems using an evolutionary framework.

- Find out which agent strategies are good for which market conditions.
- Perform comprehensive testing of electronic market implementations.



Real market data analysis

- The analysis is based on data which one obtains from either government and/or private organizations.
- Come up with a theory and see if your results of the gathered data matches your theory.

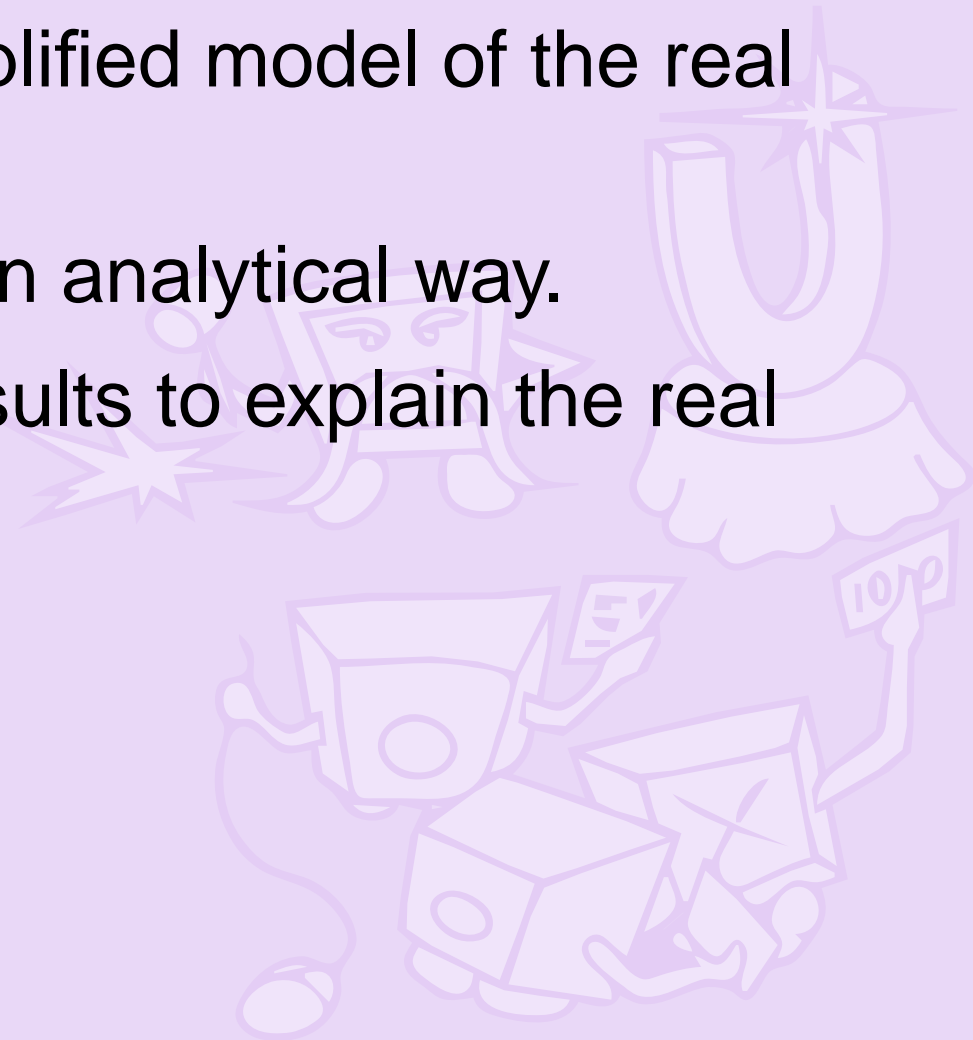


Cons of Real market data analysis

- Requires real data, which is often either private or inadequate or both.
- Some emerging electronic markets have no mapping to the real world.
- Data what one obtains serves the purpose of other organizations, not one's own. This means the data could be useless.
- Postmortem analysis: One can not test new strategies.

Analytical analysis

- Come up with a simplified model of the real world.
- Solve the model in an analytical way.
- Use the obtained results to explain the real world trends.



Cons of Analytical analysis

- Requires a lot of simplifications contradictory to the domain.
- Double transition problem.
- The results are very general. The more simplified the model is, the more general the results.
- Limits to analytical capabilities.

Competition

- Provides a formalized market environment with strict rules.
- Provides standard means of interaction in the market, such as servers, protocols, and APIs.
- Stimulates creation of a variety of different approaches (strategies) by a diverse community of scientists.

Cons of Competition

- Fixed number of rivals and equality of initial conditions.
- Tournament structure disregards non-transitivity.
- One is able to exploit the weak points of the system.
- Fixed closing date and related boundary problems.
- Requires substantial organizational effort.
- Double transition problem.

Candidate Approaches

- Real market data analysis? Requires real data, which is often either private or inadequate or both. Some emerging electronic markets have no mapping to the real world.
- Analytical analysis? Requires a lot of simplifications contradictory to the domain.
- Competition? Requires strict rules and closing date, disregards non-transitivity, requires fixed market structure on competitors' side.

Evolutionary Approach (1)

General Characteristics:

- Controllable environment and data collection.
- A large range of problems can be studied.
- Testing over a long-time period is possible.
- The type and number of agents change frequently.
- Reputation building is a vital part of any real system.
- Fully specified strategies.

Evolutionary Approach (2)

Generalized setup:

- a dynamic society of many customer and supplier agents
- who enter the market with one of available strategies and initial parameters as determined by a reproduction rule
- and survive in the market according to their accumulated wealth.

The Citysim Model:

- Simulation of a society of suppliers of a service and their customers.
- The agents live and interact in a circular city.
- The simulation is based on a simple supply and demand model, where multiple service providers compete for customers, and where profitability is the criterion to stay in business.

Customer Agent (1)

- Anonymous customers come to the market for a single transaction, with a fixed frequency λ^c :

$$t_{i+1}^c = t_i^c - \frac{1}{\lambda^c} \log U[0, 1]$$

where $U[x, y]$ is a random variable distributed uniformly on the interval $[x, y]$.

- The location of a new customer in polar coordinates is determined by the following rules:

$$r \sim U[0, R] \quad \text{and} \quad \alpha \sim U[0, 2\pi)$$

Customer Agent (2)

- Density of customers is inversely proportional to the distance from the city center.
- A customer minimizes its net cost:

$$\text{netcost} = \text{price} + \text{distance} \times c^{\text{mile}} + \text{delay} \times c^{\text{hour}}$$

- Customers do not change their properties during the simulation.

Supplier Agent:

- Suppliers are characterized by their pricing strategy, and the number of customers they can serve concurrently (size).

agenttype = ⟨strategy + size⟩

- A type is represented in the market by the corresponding *supplier generator*.
- Each supplier is audited at regular time periods and removed from the market if its profit becomes negative.
- The society of suppliers evolves to meet the demands of the customers.

Reproduction of Strategies (1)

Two-layered evolutionary learning:

1. **Auditor:**

- Evaluates the performance of supplier agents' strategies based on suppliers' average profit over a specified period of simulation time.
- Agents that make negative profit are removed from the market.

2. **Generator:** Maintains a pool of information concerning the history and the current state of its type suppliers.

Reproduction of Strategies (2)

Generalized two-layered reproduction rule:

Auditor (Upper Layer):

- The probability that a particular type will enter the market next is proportional to the number of its type that are surviving in the market.
- There is a small probability (*noise*) that a new supplier is assigned a type at random.

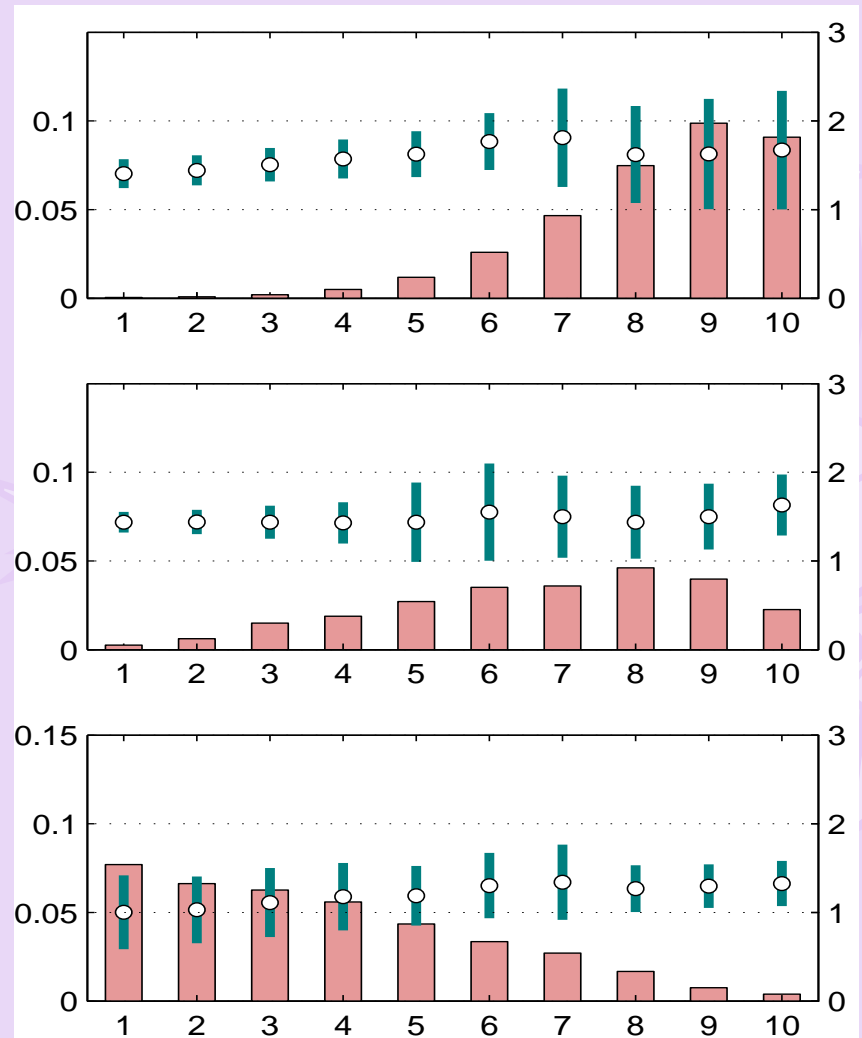
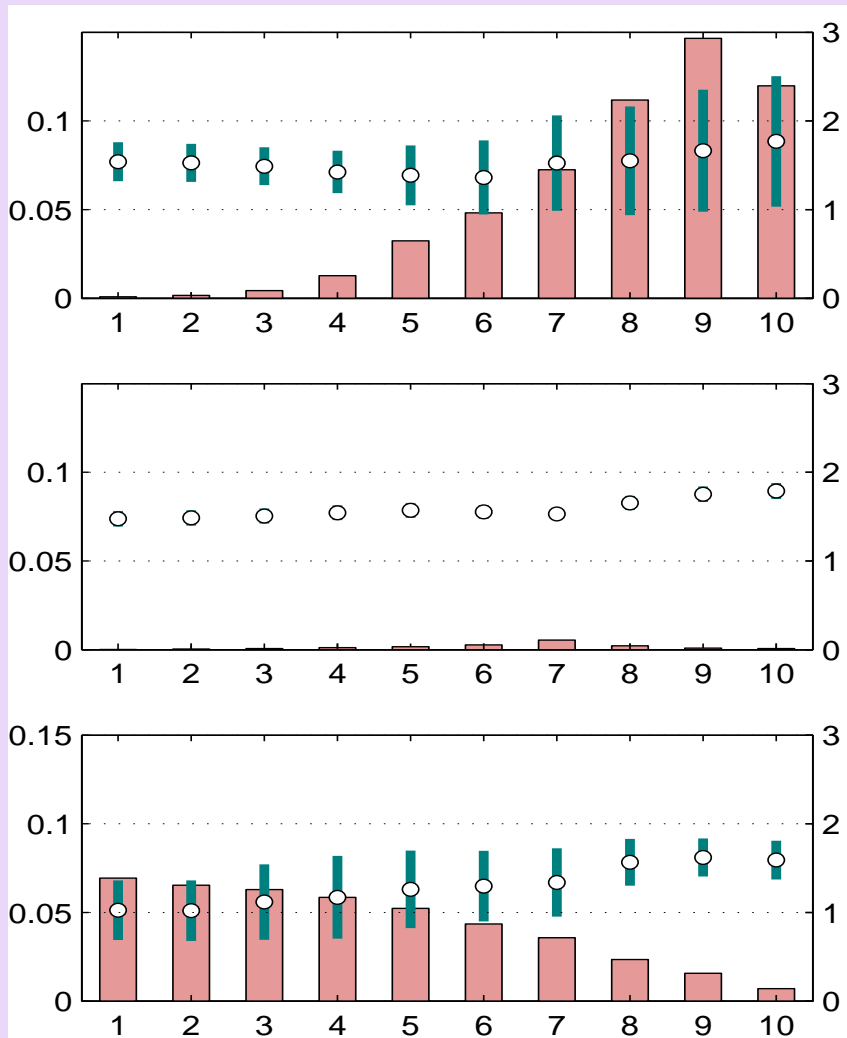
Reproduction of Strategies (3)

Generalized two-layered reproduction rule:

Generator (Lower Layer):

- General initial parameters based on general demographic information.
- Call a strategy-specific reproduction rule to select the rest of the initial parameters based on the initial parameters of all currently present agents of the same class.

Reproduction of Strategies (4)



Example of gene pools for price suppliers.

Sample Simulation with Two Different Strategies:

Market Sampler samples the city in several locations to maximize a potential revenue flow given the state of the market. The price and the number of samples it takes are assumed to be distributed normally.

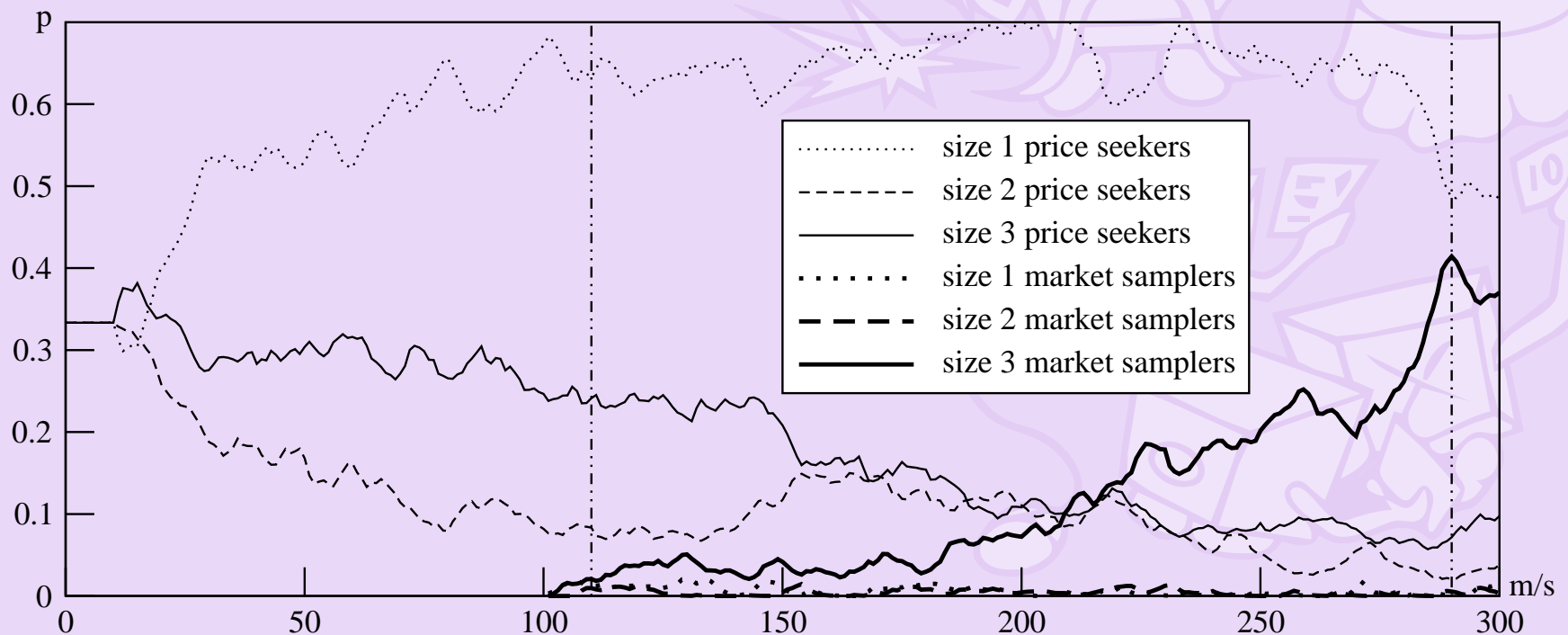
Price Seeker assumes that the “right” price and density of the suppliers depend solely on the distance from the center of a city.

Why these Two Different Strategies?

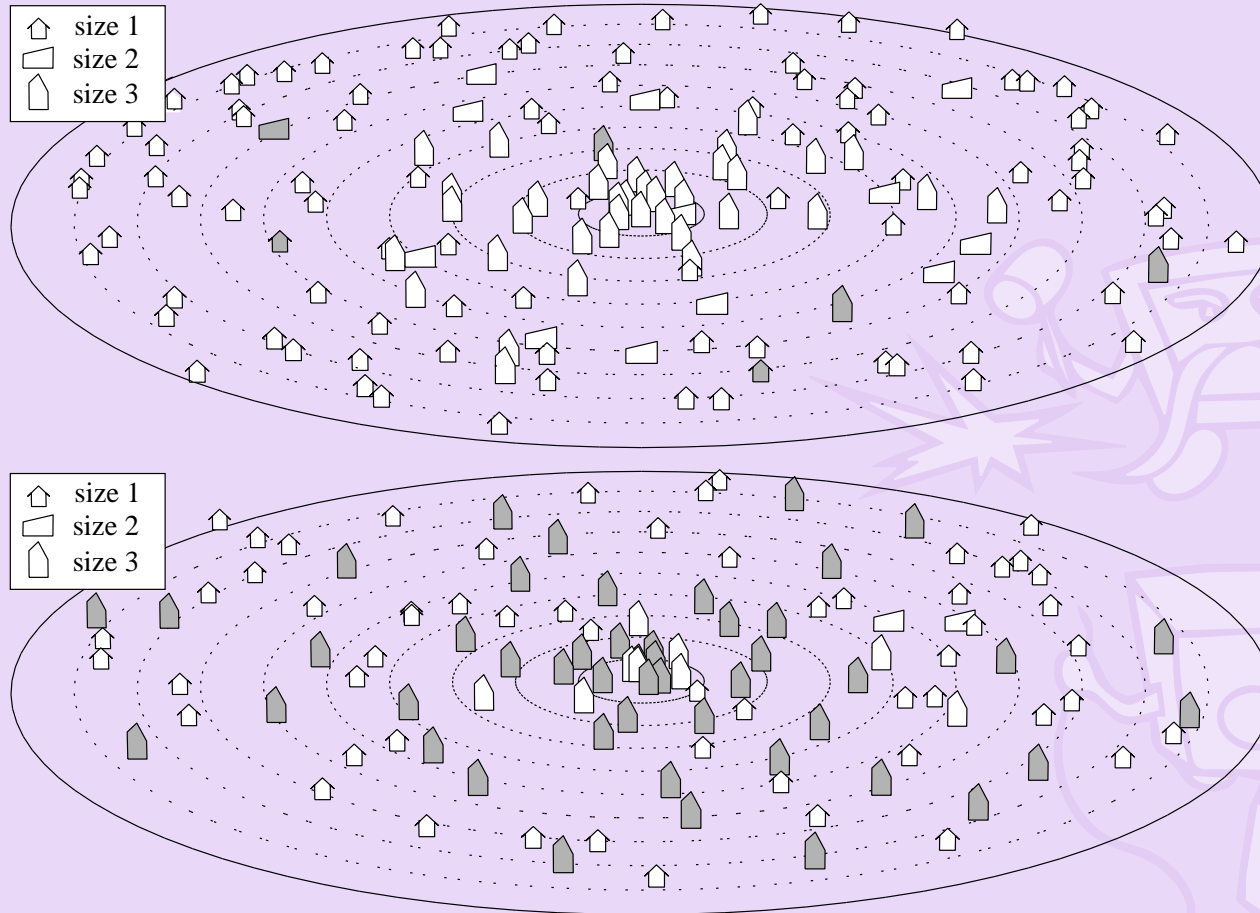
- The selected strategies exhibit sufficiently different behavior.
- The strategies were designed, so that neither strategy has a strict advantage over the other.
- Because of that, the strategies can coexist and evolve in the market at the same time.
- The supplier accepts whatever location and price was suggested by its generator and never alters them.
- Only generators are capable of learning and adapting to the market situation.

Simulation Time-Line:

Probabilities of a new supplier entry for different supplier types as a function of milestone numbers. Market sampler suppliers are introduced at milestone 100.



Results: Structure of the City

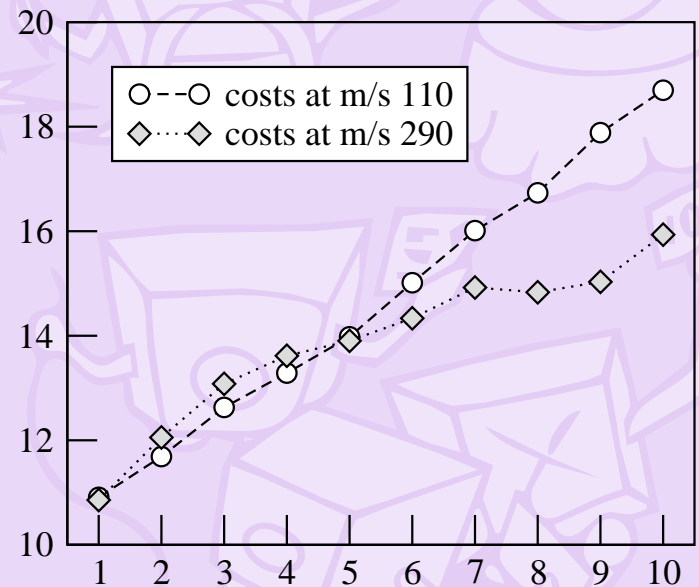
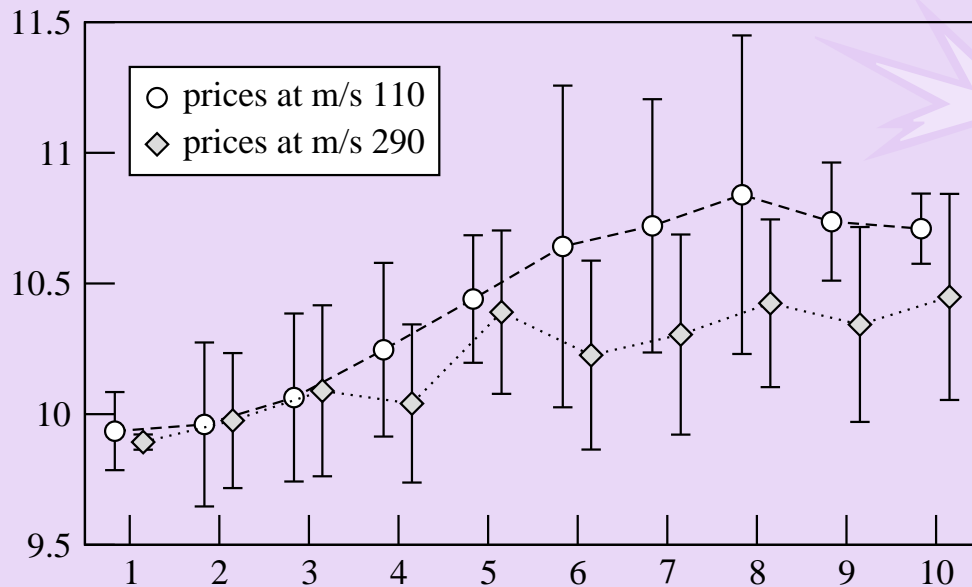


City at milestone 110 (top) and 290 (bottom).

Price seeker suppliers are denoted by white houses, market samplers are gray.

Price Distribution:

Average supplier prices with standard deviations (left) and 25 hour half-life decaying averages of customer costs (right) for 10 concentric city zones at milestones 110 and 290.



Why another Evolutionary Framework?

- Heterogeneous strategies can co-exist and evolve. New agents are created by choosing the type of the new agents and general initial parameters using statistical information on the number of existing agents of the same type.
- Agents with different strategies can enter the market at any time.
- Strategies never disappear. Even when no agents using a specific strategy are left in the market, the probability of creating new agents using that strategy never becomes zero.

Future Work:

- Build evolutionary framework on top of an existing system, e.g., TAC03.
- Introduce individual agent learning.
- Theoretical Extention.

