Online Market Intermediation

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Abstract

We study a dynamic market setting where an intermediary interacts with an unknown large sequence of agents that can be either sellers or buyers: their identities, as well as the sequence length \( n \), are decided in an adversarial, online way. Each agent is interested in trading a single item, and all items in the market are identical. The intermediary has some prior, incomplete knowledge of the agents’ values for the items: all seller values are independently drawn from the same distribution \( F_S \), and all buyer values from \( F_B \). The two distributions may differ, and we make standard regularity assumptions, namely that \( F_B \) is MHR and \( F_S \) is log-concave.

We focus on online, posted-price mechanisms, and analyse two objectives: that of maximizing the intermediary’s profit and that of maximizing the social welfare, under a competitive analysis benchmark. First, on the negative side, for general agent sequences we prove tight competitive ratios of \( \Theta(\sqrt{n}) \) and \( \Theta(\ln n) \), respectively for the two objectives. On the other hand, under the extra assumption that the intermediary knows some bound \( \alpha \) on the ratio between the number of sellers and buyers, we design asymptotically optimal online mechanisms with competitive ratios of \( 1 + o(1) \) and \( 4 \), respectively. Additionally, we study the model were the number of items that can be stored in stock throughout the execution is bounded, in which case the competitive ratio for the profit is improved to \( O(\ln n) \).

1 Introduction

The design and analysis of electronic markets is of central importance in algorithmic game theory. Of particular interest are trading settings, where multiple parties such as buyers, sellers, and intermediaries exchange goods and money. Typical examples are markets for trading stocks, commodities, and derivatives: sellers and buyers where each one trades a single item and one intermediary for facilitating the transactions. However, the well-understood cases are comparatively quite modest. The very special case of one seller, and one buyer was thoroughly studied by Myerson and Satterthwaite [27] in their seminal paper; they provided a beautiful characterization of many significant properties a mechanism might have, along with an impossibility theorem showing that it cannot possess them all. The paper also dealt with the case where a broker provides assistance by making two potential trades, one with each agent, while also trying to maximize his profit. This was extended in [16] to multiple sellers and buyers that are all immediately present in an offline manner.

Our work considers a similar setting, but with a key difference: the buyers and sellers appear one-by-one, in a dynamic way. It is natural to study this question in the incomplete information setting in which the intermediary, whose objective is to maximize either profit or welfare, does

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not know the sequence of buyers and sellers in advance. The framework that we employ to study the question is the standard worst-case analysis of online algorithms whose goal is to do as well as possible in the face of a powerful adversary which tries to embarrass them.

We are not the first to apply techniques from online algorithms to quantify uncertainty in markets: the closest work to ours would be by Blum et al. [9] who consider buyers and sellers trading identical items. In their setting, motivated mostly from a financial standpoint, buyers and sellers arrived in an online manner, with their bids appearing to the trader and expiring after some time. The trader would have to match prospective buyers and sellers to facilitate trade. Among a plethora of interesting results, the trader’s profit maximization problem was studied using competitive analysis and techniques from online weighted matchings. The key difference in our setting is that buyers and sellers do not overlap: whenever a seller appears, the intermediary has to decide whether or not to attempt to buy the item, without having a buyer ready to go. Instead, the intermediary stores the item to sell it at a later time. We believe this variation is able to capture “slower” markets, like online marketplaces similar to Amazon or AliExpress (or even regular retail stores), where uncertainty stems from not knowing how large a stock of items to buy, in expectation of the buyers to come.

1.1 Our Results

Our aim is to study this dynamic market setting, where an intermediary faces a sequence of potential buyers and sellers in an online fashion. The goal of the intermediary is to maximize his profit, or society’s welfare, by buying from the sellers and selling to buyers. We take a Bayesian approach to their utilities but use competitive analysis for their arrivals: the main difficulty stems from the unknown (and adversarially chosen) sequence of agents. Further particulars and notation is discussed in Section 2. All the online algorithms we design are posted price, which are simple, robust and strongly truthful.

First, in Section 4 we study the case of arbitrary sequences of buyers and sellers and show that the competitive ratio—the ratio of the optimal offline profit over the profit obtained by the online algorithm—is $\Theta(\sqrt{n})$, where $n$ is the total number of buyers and sellers. We also study the social welfare objective, where the goal is to maximize the total utility of all participants, including the sellers, the buyers and the intermediary. The competitive ratio here is $\Theta(\log n)$. All these results are achieved via standard regularity assumptions on the distributions of the agent values (see Section 3), which we also prove to be necessary, by providing arbitrarily bad competitive ratios in the case they are dropped (Theorem 3).

To overcome the above pessimistic results, we next study in Section 5 the setting where both the online and offline algorithms have a limited stock, i.e. at no point in time can they hold more than $K$ items. In this model, the competitive ratio is improved to $\Theta(K \log n)$, asymptotically matching that of welfare. Finally, we also propose a way to restrict the input sequence, by introducing in Section 6 the notion of $\alpha$-balanced streams, where at every prefix of the stream the ratio of the number of sellers to buyers has to be at least $\alpha$. Under this condition we are able to bring down the competitive ratios for both objectives to constants. In particular, the online posted-price mechanism that we use for profit maximization, and which is derived by a fractional relaxation of the optimal offline profit, achieves an asymptotically optimal ratio of $1 + o(1)$. A similar mechanism is 4-competitive for the welfare objective.

1.2 Prior Work

Our work is grounded on a string of fruitful research in mechanism design. The main topics that are close to our effort are bilateral trading, trading markets and sequential (online) auctions.
The first step in bilateral trading and mechanism design was made by Myerson and Satterthwaite [27] who proved their famous impossibility result, even for the case of one buyer and one seller. The case for profit maximization was extended to many buyers and sellers, each trading a single identical item, in [16]. Some of the assumptions in our model are based in these two works. The impossibility result in [27], among other difficulties, slowly vanishes for larger markets as was shown by McAfee [26]. There is still active progress being made on this intriguing setting, concentrating on simple mechanisms that provide good approximations either to welfare while staying budget balanced and individually rational [10, 12] or to profit [28]. Other recent developments include a hardness result for computing optimal prices [18] and constant efficiency approximation with strong budget balance [15].

Sequential auctions have also produced a collection of interesting results, either extending the ideas of simple approximate mechanisms instead of more complex, theoretically optimal ones or dealing with entirely new settings. Prominent examples that compare the revenue (or welfare) generated by simple, posted-price sequential auctions to the optimal, proving good approximations in certain cases, are [11] for single-item revenue, [14, 30] for matroid constraints (and some multi-dimensional settings) and [17] for combinatorial auctions. There have been many approaches that apply competitive (worst-case) analysis to mechanism design. The analysis of competitive auctions for digital goods is explored in [6, 8] where near optimal algorithms are developed using techniques inspired from no-regret learning. There is also a deep connection between secretary problems and online sequential auctions [21, 20, 4]. Hajiaghayi et al. utilized techniques such as prophet inequalities for unknown market size with distributional assumptions in [22]. A comprehensive exposition of online mechanism design by Parkes can be found in [29].

There are also positive results in online auctions when the valuation distribution is unknown (but usually known to be restricted in some way, having bounded support or being monotone hazard-rate etc). Babaioff et al. explored the case of selling a single item to multiple i.i.d. buyers in [2]. The case of k items in a similar setting was studied in [3], while the case of unlimited items (digital goods auctions) in [23] and [25]. Budget constraints where also introduced in [5], where a procurement auction was the focus.

2 Preliminaries and Notation

The input is a finite string σ ∈ {S, B}∗ of buyers (B) and sellers (S). The online algorithm has no knowledge of σ(t), i.e. whether σ(t) = S or σ(t) = B, before step t. Also, it doesn’t know the length n(σ) of σ. Denote n_S(σ), n_B(σ) the number of sellers and buyers, respectively, in σ, and let N_S(σ), N_B(σ) be the corresponding set of indices, i.e. N_S(σ) = {t | σ(t) = S} and N_B(σ) = {t | σ(t) = B}. Let N(σ) = N_S(σ) ∪ N_B(σ) = {1, 2, ..., n(σ)}. In the above notation we will often drop the σ if it is clear which input stream we are referring to.

The values of the sellers are drawn i.i.d. from a probability distribution (with cdf) F_S and these of buyers i.i.d. from a distribution F_B, both supported over intervals of nonnegative reals. We denote the random variable of the value of the t-th agent with X_t. We assume that distributions F_S and F_B are continuous, with bounded expectations µ_S and µ_B, and have (well-defined) density functions f_S and f_B, respectively. It will also be useful to denote by X_S a random variable drawn from distribution F_S, and similarly X_B ∼ F_B, and for any random variable Y and positive integer m use Y^{(m)} to represent the maximum order statistic out of m i.i.d. draws from the same distribution as Y. We will also use the shortcut notation µ^{(m)} = E[Y^{(m)}].

We study posted-price online algorithms that upon seeing the identity of the t-th agent (whether she is a seller or a buyer), offer a price p_t. We buy one unit of the item from sellers
that accept our price (i.e. if $\sigma(t) = S$ and $X_t \leq p_t$) and pay them that price, and we sell to
buyers that accept our price (i.e. if $\sigma(t) = B$ and $X_t \geq p_t$), given stock availability (see below),
and collect from them that price. So, a price $p_{t+1}$ can only depend on $\sigma(1), \ldots, \sigma(t + 1)$ and
the result of the comparison $X_t \leq p_t$ in all previous steps $i = 1, 2, \ldots, t$. Let $K_t$ denote the
available stock at the beginning of the $t$-th step, i.e. $K_1 = 0$ and
\[
K_{t+1} = \begin{cases} 
K_t + 1, & \text{if } \sigma(t) = S \land X_t \leq p_t \\
K_t - 1, & \text{if } \sigma(t) = B \land K_t \neq 0 \land X_t \geq p_t \\
K_t, & \text{otherwise}.
\end{cases}
\]
Then, the set of sellers from whom we bought items during the algorithm’s execution is $I_S = \{t \in N_S \mid X_t \leq p_t\}$ and the set of buyers we sold to is $I_B = \{t \in N_B \mid X_t \geq p_t \land K_t \neq 0\}$. Notice that these are random variables, depending on the actual realizations of the agent values $X_t$.

The total profit that the intermediary deploying an algorithm $A$ makes throughout the execution on an input stream $\sigma$, is the amount he manages to collect from the buyers via successful sales, minus the amount he spent in order to maintain stock availability from the sellers, that is
\[
R(A, \sigma) = \mathbb{E} \left[ \sum_{t \in I_B} p_t - \sum_{t \in I_S} p_t \right].
\]

The social welfare of algorithm $A$ is the sum of valuations that all participants achieve throughout the entire execution. That is, a seller at position $t$ of the stream has a value of $X_t$ if she keeps her item, or a value of $p_t$ if she sold the item to the intermediary; a buyer has a value of $X_t - p_t$ if she managed to buy an item, since the item has a value of $X_t$ and he spent $p_t$ to buy it, or 0 otherwise. And the intermediary, has a value of $R(A)$ plus the value of the items that he didn’t manage to sell in the end and which are now left in his stock. Putting everything together and performing the occurring cancellations, this results in the welfare to be expressed simply as the sum of the values of the sellers that kept their items plus the sum of the values of the buyers that bought an item, i.e.
\[
W(A, \sigma) = \mathbb{E} \left[ \sum_{t \in N_S \setminus I_S} X_t + \sum_{t \in I_B} X_t \right]. \tag{1}
\]

We use competitive analysis, the standard benchmark for online algorithms (see e.g. [13]), in order to quantify the performance of an online algorithm $A$: we compare it to that of an unrealistic, offline optimal algorithm OPT has access to the entire stream $\sigma$ in advance. Then, we say that $A$ is $\rho(n)$-competitive with respect to welfare, if for any feasible input sequence of agents $\sigma$ with length $n$ and distributions $F_S, F_B$ for the agent values, it is $W(OPT, \sigma) \leq \rho(n) \cdot W(A, \sigma)$. Notice how we allow the competitive ratio $\rho(n)$ to explicitly depend on the input’s length, so that we can perform asymptotic analysis as $W(OPT, \sigma)$ and $n$ tend to infinity. It is common in competitive analysis to allow for an additional constant in the right hand side of the above expression, that does not depend in the input, and which intuitively can capture some initial configuration disadvantage of the online algorithm. We do that for the case of the profit objective, as this constant will have a very natural interpretation: you can think of it as the maximum amount of deficit on which an online algorithm can run at any point in time, since an adversary can always stop the execution at any time he wishes. Given that interpretation, it makes sense to allow for this constant to depend on seller distribution $F_S$, since even when we face a single seller at the first step we expect to spend an amount that depends on the
realization of her value. Thus, we will say that an online algorithm is \( \rho(n) \)-competitive with respect to welfare, if for any input sequence of agents \( \sigma \) and any probability priors \( F_S, F_B \),

\[
R(\text{OPT}, \sigma) \leq \rho(n) \cdot R(A, \sigma) + O(\mu_S).  
\]

### 3 Distributional Assumptions

Throughout most of the paper we will make some assumptions on the distributions \( F_B, F_S \) from which the buyer and seller values are drawn. In particular, we will assume that \( F_B \) has monotone hazard rate (MHR), i.e. \( \log(1 - F_B(x)) \) is concave, and that \( F_S \) is log-concave, i.e. \( \log F_S(x) \) is concave. For convenience, we will collectively refer to both the above constraints as regularity. These conditions are rather standard in the optimal auctions literature, and they encompass a large class of natural of distributions including e.g. exponential, uniform and normal ones. Notice that distributions that satisfy the above conditions also fulfil the regularity requirements introduced in the seminal paper Myerson and Satterthwaite [27] for the single-shot, one buyer and one seller setting of bilateral trade, namely that

\[
x + F_S(x) f_S(x) \\
x - 1 - F_B(x) f_B(x)
\]

are both increasing functions. Finally, we must mention that such regularity assumptions are necessary, in the sense that dropping them would result in arbitrarily bad lower bounds for the competitive ratios of our objectives, as it is demonstrated by Theorem 3.

The following two lemmas demonstrate some key properties of the regular distributions that will be very useful in our subsequent analysis:

**Theorem 1.** For any random variable \( Y \) drawn from an MHR distribution with bounded expectation \( \mu \) and standard deviation \( s \),

1. \( \Pr \{ Y \geq y \} \geq \frac{1}{e} \) for any \( y \leq \mu \)
2. \( \Pr \{ Y \geq y \} < \frac{1}{e} \) for any \( y > 2\mu \)
3. \( E[Y^{(m)}] \leq H_m \cdot \mu \), where \( H_m \) is the \( m \)-th harmonic number.
4. \( s \leq \mu \)

**Proof.** A proof of Property 1 can be found in [7, Theorem 3.8], of Property 2 in [7, Corollary 3.10], and of Property 3 in [2, Lemma 13]. For Property 4, from [19, Lemma 2] we know that \( E[Y^2] \leq 2\mu^2 \), so \( s^2 = E[Y^2] - \mu^2 \leq \mu^2 \).

**Lemma 1.** For any distribution over \([0, \infty)\) with log-concave cdf \( F \) and expectation \( \mu \),

\[
x \leq e\mu F(x) \ 	ext{ for any } x \leq \mu.
\]

**Proof.** Fix some \( x \leq \mu \) and let \( c = \frac{x}{\mu} \). Define the random variable \( Y = cX \), where \( X \) is drawn from \( F \), and let \( F_Y \) be the cdf of \( Y \). Since \( F \) is log-concave, \( \ln F(t) \) is a concave function, and so from Jensen’s inequality

\[
\ln F(c \mu) = \ln F(E[Y]) \geq \int_0^\infty \ln F(t) dF_Y(t) = \int_0^\infty \ln F(t) c \mu F(t) = c \int_0^1 \ln u du = -c.
\]

So, \( F(x) \geq e^{-c} = \frac{e^{-c}}{\mu} e^{-c} = \frac{x}{\mu} e^{-c} \). The lemma follows from the fact that \( \frac{x}{\mu} e^{-c} \) is decreasing for \( c \in (0, 1] \).

Finally, we prove the following property bounding the sum of maximum order statistics of a distribution, that holds for general (not necessarily regular) distributions and might be of independent interest:
Lemma 2. The expected average of the k-th highest out of m independent draws from a probability distribution with expectation $\mu$ and standard deviation $s$ can be at most $\mu + 2\sqrt{\frac{m}{k}}s$.

Proof. Let $Y^{(1:m)} \leq Y^{(2:m)} \leq \ldots \leq Y^{(m:m)}$ denote the order statistics of $m$ independent draws from a probability distribution with mean $\mu$ and standard deviation $s$. We want to prove that

$$\sum_{i=m-k+1}^{m} \mathbb{E}[Y^{i:m}] \leq k\mu + 2\sqrt{\frac{m}{k}}s.$$

From [1, Eq. (4)] we know that $\mathbb{E}[Y^{(i:m)}] \leq \mu + s\sqrt{\frac{i-1}{m-i+1}}$, so it is enough to show that $\sum_{i=m-k+1}^{m} \sqrt{\frac{i-1}{m-i+1}} \leq 2\sqrt{k}m$. Indeed, by using the transformation $j = m - i + 1$, we get

$$\sum_{i=m-k+1}^{m} \sqrt{\frac{i-1}{m-i+1}} = \sum_{j=1}^{k} \sqrt{\frac{m}{j}} - 1 \leq \sqrt{m} \sum_{j=1}^{k} \frac{1}{j} \leq \sqrt{m} \int_{0}^{k} x^{-1/2} \, dx = \sqrt{m} \cdot 2\sqrt{k}.$$

\[\square\]

4 General Setting

We start by studying the general setting where no additional assumptions are enforced on the structure of the input sequence. The adversary is free to arbitrarily choose the identities of the agents.

4.1 Welfare

Theorem 2. For regularly distributed agent values\footnote{As matter of fact, in the proof of Theorem 2 just regularity for the buyer values would suffice, i.e. $F_{B}$ being MHR.}, the online auction that posts to any seller and buyer the median of their distribution is $O(\ln n)$-competitive with respect to welfare. This bound is tight.

Proof. We split the proof of the theorem in two more general lemmas below, corresponding to upper and lower bounds. Then, the upper bound for our case of regular distributions follows easily from Lemma 3 by using constants $c_1 = c_2 = 2$, and taking into consideration that, from Property 3 of Theorem 1, the ratio of the maximum order statistic for the MHR distribution $F_{B}$ is upper bounded by $r_{B}(m) \leq H_{m} \leq O(\ln m)$. For the lower bound, it is enough to observe that this ratio is attained by an exponential distribution, which is MHR.

Lemma 3. For any choice of constants $c_1, c_2 > 1$, the following fixed-price online auction has a competitive ratio of at most $\max\left\{ \frac{c_1}{c_1 - 1}, c_1c_2 \cdot r_{B}(n_{B}) \right\}$ with respect to welfare, where $n_{B}$ is the number of buyers, and $r_{B}(m) = \mu_{B}^{(m)} / \mu_{B}$ is the ratio between the m-maximum-order statistic and the expectation of the buyer value distribution.

- Post to all sellers price $q = F_{S}^{-1}\left(\frac{1}{c_1}\right)$.

- Post to all buyers price $p = F_{B}^{-1}\left(\frac{c_2 - 1}{c_2}\right)$.\footnote{As matter of fact, in the proof of Theorem 2 just regularity for the buyer values would suffice, i.e. $F_{B}$ being MHR.}
Indeed, for a contradiction suppose that exists a time step $t^*$ and $x_t = \alpha \equiv p_{t^*} < p_{t^* + 1} \equiv \beta$. You can think of that as the maximum size of a matching in the following undirected graph: the nodes are the sellers and the buyers, and there is an edge between any seller and all the buyers that appear after her in $\sigma$. 

**Proof.** Let $A$ denote our online algorithm and OPT an offline algorithm with optimal expected welfare. Fix an input stream $\sigma$. Looking at (1), the maximum welfare that OPT can get from the sellers is at most $E \left[ \sum_{i \in N_S} X_i \right] = n_s \mu_S$, while from the buyers at most $E \left[ [B] \cdot X_B^{(\max)} \right] \leq \kappa E \left[ X_B^{(\max)} \right]$, where $\kappa$ is the maximum number of sellers that can be matched to distinct buyers that arrive after them$^2$ in $\sigma$: clearly, no mechanism can sell more than $\kappa$ items. Bringing all together we have that

$$W(\text{OPT}) \leq n_s \mu_S + \kappa \mu_B^{(\max)} = n_s \mu_S + r_B(n_B) \cdot \kappa \mu_B.$$  

For the online algorithm now, from the sellers we get

$$\sum_{i \in N_S} \Pr [X_i > q] E[X_i | X_i > q] \geq n_s (1 - F_S(q)) E[X_S] = \frac{c_1 - 1}{c_1} \cdot n_S \mu_S$$

and from the buyers at least

$$\kappa \Pr [X_S \leq q] \Pr [X_B \geq p] E[X_i | X_i \geq p] \geq \kappa F_S(q)(1 - F_B(p)) E[X_B] = \frac{1}{c_1 c_2} \cdot \kappa \mu_B,$$

just by considering one of the $\kappa$-size matchings discussed before: if we manage to buy from one of these $\kappa$ sellers, then we will definitely have stock availability for the matched buyer. \(\square\)

The upper bound in Lemma 3 cannot be improved:

**Lemma 4.** For any probability distribution $F$, even if the seller and buyer values are i.i.d. from $F$, the sequence $SB^n$ forces all posted-price online mechanisms to have a competitive ratio of $\Omega(r(n))$, where $r(n) = \mu^{(n)} / \mu$ is the ratio of the $n$-maximum-order statistic of distribution $F$ to its expectation.

**Proof.** Assume that the seller and buyer values are drawn i.i.d. from a distribution $F$. Let $Y \sim F$ denote a random variable following this distribution and denote $\mu = E[Y]$, $\mu^{(n)} = E[Y^{(n)}]$. Fix an online algorithm $A$ that posts price $q$ to the seller and prices $p \equiv p_1, p_2, \ldots$ to the buyers. Notice that this sequence of buyer prices $p$ cannot depend on the actual stream length $n$, since that is being selected adversarially.

We overestimate $A$’s expected welfare by assuming that it gets maximum welfare from the first seller, i.e. $E[Y] = \mu$, while at the same buys for sure the item from her so that it has stock availability to sell in the sequence of buyers. Then, from (1) its expected welfare is given by

$$W(p) = \mu + \sum_{t=1}^{n} \pi(t) \cdot \lambda(p_t), \quad (3)$$

where

$$\pi(t) = \pi(p, t) = \prod_{j=1}^{t-1} \Pr [Y < p_j] = \prod_{j=1}^{t-1} F(p_j)$$

and

$$\lambda(y) = \Pr [Y \geq y] \cdot E[Y \mid Y \geq y] = (1 - F(y)) E[Y \mid Y \geq y] = \int_y^\infty xf(x) \, dx \leq \mu.$$
Consider now the online mechanism that uses prices $p'$, where $p'$ results from the original prices $p$ if we flip the prices at steps $t^*, t^* + 1$, i.e. $p'_{t^*} = \beta$, $p'_{t^* + 1} = \alpha$, and $p'_{t} = p_t$ for all $t \neq t^*, t^* + 1$. Then, the difference in the expected welfare between the two mechanisms is

$$W(p') - W(p) = \sum_{t=t^*}^{t^*+1} \pi(p', t) \cdot \lambda(p'_{t}) - \sum_{t=t^*}^{t^*+1} \pi(t) \cdot \lambda(p_t)$$

$$= \pi(t^*) \lambda(\beta) + \pi(t^*) \lambda(\alpha) - \pi(t^*) \lambda(\alpha) - \pi(t^*) \lambda(\alpha)$$

$$= \pi(t^*) [(1 - F(\alpha)) \lambda(\beta) - (1 - F(\beta)) \lambda(\alpha)]$$

$$= \pi(t^*)(1 - F(\alpha))(1 - F(\beta)) (E[Y | Y \geq \beta] - E[Y | Y \geq \alpha])$$

which is nonnegative since $\alpha < \beta$.

There are two options for the prices $p$: either $F(p_t) = 1$ for all $t$, or $k = \min \{t \mid F(p_t) < 1\}$ is a well-defined positive integer that does not depend on $n$, in which case define the constant $c \equiv F(p_k) < 1$. From (3), in the former case it is easy to see that $W(p) = \mu$, while in the latter one

$$W(p) \leq \mu + \pi(k) \sum_{t=k}^{n} F(p_k)^{1-k} \lambda(p_t) \leq \mu + \pi(k) \sum_{t=k}^{n} c^{1-k} \mu \leq \left(1 + \frac{\infty}{\sum_{j=0}^{\infty} c^j}\right) \mu = \frac{2 - c}{1 - c} \mu$$

On the other hand, it is a well-know fact from the theory of prophet inequalities (see e.g. [24]) that by using a price of $\mu^{(n)}_2$ for all the buyers an offline mechanism can achieve a welfare of at least $\frac{\mu^{(n)}}{1}$ from the buyers, given of course availability of stock. So, by setting e.g. a price equal to the median of $F$ for the seller, the optimal offline welfare is at least $\frac{1}{2} \mu + \frac{1}{2} \mu^{(n)} = \Omega(\mu^{(n)})$.

As the following theorem demonstrates, the regularity assumption on the agent values is necessary if we want to hope for non-trivial bounds. In particular, the lower bound in Lemma 4 can be made arbitrarily high:

**Theorem 3.** For any constant $\varepsilon \in (0,1)$, there exists a continuous probability distribution $F$ such that any online posted-price mechanism has a competitive ratio of $\Omega(n^{1-\varepsilon})$ on the input sequence $SB^n$, even if the values of the sellers and the buyers are i.i.d.

**Proof.** Fix some $\varepsilon \in (0,1)$ and choose the Pareto distribution with $F(x) = 1 - x^{-1/\varepsilon}$ for $x \in [1, \infty)$. The expected value of this distribution is $\mu = \frac{1}{\varepsilon}$ while the expectation of the maximum order statistic out of $n$ independent draws is

$$\mu^{(n)} = \frac{n \Gamma(n) \Gamma(\varepsilon)}{\Gamma(n + \varepsilon)} \sim \Gamma(\varepsilon)n^{1-\varepsilon},$$

since $\lim_{n\to\infty} \frac{\Gamma(n+\varepsilon)/\Gamma(\varepsilon)}{n^\varepsilon} = 1$, where $\Gamma(x)$ denotes the standard gamma function. So, as $n$ grows large, the ratio in Lemma 4 becomes

$$r(n) = \frac{\mu^{(n)}}{\mu} = \varepsilon \Gamma(\varepsilon) \cdot n^{1-\varepsilon} \geq \frac{4}{5} n^{1-\varepsilon} = \Omega(n^{1-\varepsilon}).$$

\[\square\]
4.2 Profit

Now we turn our attention to our other objective of interest, that of maximizing the expected profit of the intermediary. As it turns out, this objective has some additional challenges that we need to address. For example, as the following theorem demonstrates, if the distribution of seller values is bounded away from 0, the competitive ratio can be arbitrarily bad, even for i.i.d. values from a uniform distribution:

**Theorem 4.** For any $a > 0$ and $\varepsilon \in (0, 1)$, if the seller and buyer values are drawn i.i.d. from the uniform distribution over $[a, b]$ where $b > 2a$, then no online posted-price mechanism can have an approximation ratio better than $a \left(1 - \frac{1}{k}\right)^4 n^{1-\varepsilon}$ with respect to profit, where $k = \frac{b}{a} - 1$. In particular, for any uniform distribution over an interval $[1, h]$ with $h \geq 3$, the lower bound is $\frac{1}{256} n^{1-\varepsilon} = \Omega(n^{1-\varepsilon})$.

**Proof.** Fix $a, b > 0$ such that $k = \frac{b}{a} - 1 > 1$. Assume that the buyer and seller values are drawn i.i.d. from the uniform distribution $[a, b]$, i.e. the cdf is $F(x) = \frac{x-a}{b-a} = \frac{1-x}{ak}$ for all $x \in [a, (k+1)a]$. Consider the input stream $\sigma = S^{n/2} B^{n/2}$, for $n$ even.

First, it is easy to see that for any $\varepsilon \in (0, 1)$ no online algorithm can buy more than $\frac{n^2}{128} \frac{1}{a}$ items from the sellers in the first part of the stream, otherwise it will have to spend more than $\frac{n^2}{128} = \omega(1)$. This means that the maximum profit that an online algorithm can get, even if it manages to sell to the buyers all the items she bought from the sellers, is at most $\frac{n^2}{128} \frac{1}{a} (b - a) = \frac{k}{128} n^\varepsilon$.

Consider an offline algorithm that posts to seller and buyers the prices corresponding to the $\frac{1}{8} \left(1 - \frac{1}{k}\right)^2$ and $\frac{1}{2} \left(1 - \frac{1}{k}\right)$ percentiles, respectively. That is, buyers get a price of $p = F^{-1}(y) = a(yk + 1)$ and sellers $q = F^{-1} \left(\frac{y^2}{2}\right) = \frac{a}{2} (2 + y^2 k)$, where $y = \frac{1}{2} \left(1 - \frac{1}{k}\right)$. Then, the probability that the offline algorithm buys an item from a specific seller is $F(q)$, resulting in the algorithm spending $\frac{n}{2} F(q) q$ in expectation. On the other hand, underestimate its expected income buy considering only selling to the $i$-th buyer the item that you got from the $i$-th seller. Then, the probability of achieving a successful transaction with a particular buyer is $F(q)(1 - F(p))$, resulting in an expected profit of at least

$$\frac{n}{2} F(q)(1 - F(p))p - \frac{n}{2} F(q)q = \frac{ny^2}{2} \left(1 - y \right) F^{-1}(y) - F^{-1} \left(\frac{y^2}{2}\right)$$

$$= \frac{n}{2} y^3 \left[(3y - 2)k - 2\right]$$

$$= \frac{ak}{128} n \left(1 - \frac{1}{k}\right)^4.$$

\square

If we consider distributions supported over intervals that include 0, under standard regularity assumptions we can do a little better than the trivial lower bound of Theorem 4:

**Theorem 5.** For agent values regularly distributed over intervals that include 0, the following online posted-price mechanism achieves a competitive ratio of $O(n^{1+\varepsilon})$ for any $\varepsilon > 0$:

- Post to the $i$-th seller price $q_i = F_S^{-1} \left(\frac{1}{8} \frac{1}{i^{1/2+\varepsilon}}\right)$
- Post to all buyers price $p = \mu_B$.
Proof. Fix an input stream $\sigma$ of length $n$. Let $\mu_B$ and $s_B$ be the expectation and standard deviation of the buyer value distribution $F_B$. As in the proof of Lemma 3, let $\kappa$ denote the maximum number of sellers that can be matched to distinct buyers that arrive after them in $\sigma$. If $\mu_B^{(j:m)}$ denotes the expectation of the $j$-th largest out of $m$ independent draws from $F_B$, since no algorithm can make more than $\kappa$ sales over its entire execution, the optimal offline profit is upper bounded by

$$\sum_{j=1}^{\kappa} \mu_B^{(n_B-j+1:n_B)} \leq \sum_{i=n-\kappa+1}^{n} \mu_B^{(i:n)} \leq \kappa \mu_B + 2\sqrt{\kappa n} s_B \leq 3\sqrt{\kappa} \sqrt{n} \mu_B,$$

where for the second inequality we have used Lemma 2 and for the last one we have used Property 4 from Theorem 1 and the obvious fact that $\kappa \leq n$.

For the analysis of the online mechanism we now, the expected number of items that it gets from the first $\kappa$ sellers is $\sum_{i=1}^{\kappa} F_S(q_i) = \frac{1}{\varepsilon} \sum_{i=1}^{\kappa} \frac{1}{\sqrt{\varepsilon} n} \geq \frac{1}{\varepsilon} \kappa^{1/2-\varepsilon}$. So, by considering the FIFO matching between these first $\kappa$ sellers and their corresponding buyers (see Lemma 9), the expected income of our algorithm is at least $\frac{1}{\varepsilon} \kappa^{1/2-\varepsilon} (1 - F(p)) = \frac{1}{\varepsilon} \kappa^{1/2-\varepsilon} (1 - F(\mu_B)) \geq \frac{1}{\varepsilon} \kappa^{1/2-\varepsilon}$, where in the last step we deployed Property 1 of Theorem 1. So, it only remains to be shown that the online algorithm does not spend more than a constant amount. Indeed, our expected spending is at most

$$\sum_{i=1}^{\infty} q_i F_S(q_i) \leq \sum_{i=1}^{\infty} e^{\mu_S} F_S(q_i)^2 = \frac{1}{\varepsilon} e^{\mu_S} \sum_{i=1}^{\infty} \frac{1}{\varepsilon^{1/2} n} = O(\mu_S),$$

where for the first inequality we have used Lemma 1, taking into consideration that seller prices $q_i$ are decreasing and $q_1$ is below $\mu_B$. This is true because again from Lemma 1 for $x = \mu_S$ we know that $\mu_S \leq e \mu_S F(\mu_S)$, or equivalently $F(\mu_S) \geq \frac{1}{e} = F(q_1)$. □

The algorithm of Theorem 5 is asymptotically optimal:

Theorem 6. If the seller and buyer values are drawn i.i.d. from the uniform distribution over $[0, 1]$, then no online posted-price mechanism can have an approximation ratio better than $\Omega(\sqrt{n})$.

Proof. As in the lower bound proof of Theorem 4 we again deploy an input sequence $\Omega = S^{n/2} B^{n/2}$ with $n$ even. Let $F(x) = x$ be the cdf of the uniform distribution over $[0, 1]$. This time we argue that no online algorithm can buy more than $O(\sqrt{n})$ items from the sellers, in expectation. Indeed, let $q_i$ be the price that the online mechanism posts to the $i$-th seller. Then, the expected number of items $m_\sigma$ bought from the sellers is $\sum_{i=1}^{n/2} F(q_i) = \sum_{i=1}^{n/2} q_i$, while the expected expenditure $c_\sigma$ is $\sum_{i=1}^{n/2} F(q_i) q_i = \sum_{i=1}^{n/2} q_i^2$. By the convexity of the function $t \mapsto t^2$ and Jensen’s inequality it must be that

$$m_\sigma = \sum_{i=1}^{n/2} q_i \leq \sqrt{\frac{n}{2}} \left( \sum_{i=1}^{n/2} q_i^2 \right)^{1/2} = O\left( \sqrt{\sigma} \sqrt{n} \right),$$

so given that our deficit must be $c_\sigma = O(\frac{1}{2})$, we get the desired $m_\sigma = O(\sqrt{n})$. As a result, the online profit can be at most $O(\sqrt{n}) \cdot 1 = O(\sqrt{n})$.

For the offline algorithm we use prices $q = \frac{1}{8}$ and $p = \frac{1}{2}$ for the buyers and sellers, respectively, and by an analogous analysis to that of the proof of Theorem 4, we get that the expected offline profit is at least

$$\frac{n}{2} F(q)(1 - F(p))p - \frac{n}{2} F(q)q = \frac{n}{2} \left( 1 - \frac{1}{2} \right) \frac{1}{2} - \frac{n}{2} \frac{1}{8} \frac{1}{8} = \frac{n}{128} = \Omega(n).$$

□

10
5 Limited Stock

If one looks carefully at the lower bound proof for the profit in Theorem 6, it becomes clear that the source of difficulty for any online algorithm is essentially the fact that without knowledge of the future, you cannot afford to spend a super-constant amount of money into accumulating a large stock of items, without the guarantee that there will be enough demand from future buyers. In particular, it may seem that the offline algorithm has an unrealistic advantage of using a stock of infinite size. The natural way to mitigate this would be to introduce an upper bound $K$ on the number of items that both the online and offline algorithms can store at any point in time. As it turns out, this has a dramatic improvement in the competitive ratio for the profit:

**Theorem 7.** Assuming stock sizes of at most $K$ items, under our standard regularity assumptions the following online mechanism is $O(Kr \log n)$-competitive, where $r = \max \left\{ 1, \frac{\mu_S}{\mu_B} \right\}$:

- If your stock is not currently full, post to sellers price $q = F_S^{-1} \left( \frac{1}{r} \frac{1}{2eK} \right)$
- Post to all buyers price $p = \mu_B$.

**Proof.** The proof is similar to that of Theorem 5, but certain points need some special care. Let $\kappa$ again be the maximum number of sellers that can be matched to distinct buyers that follow them, but this time under the added restriction of the $K$-size stock. This corresponds to the maximum matching with no “temporal” cut of size greater than $K$. We write “temporal” cut to mean any cut in the graph that separates the vertices (buyers and sellers) $1 \ldots i$ from vertices $i+1 \ldots n$ — that is, precisely the condition that we cannot match more than $K$ sellers from an initial segment to buyers later in the sequence. Lemma 9 in the appendix demonstrates that such a $\kappa$-size matching can be computed not only offline, but also online using a FIFO queue of length $K$, adding sellers to the queue while it is not full and matching buyers greedily: we post prices to sellers, only if we have free space in our stock, i.e. when the matching queue is not full. We underestimate the online profit by considering only selling an item to the buyer that is matched to the seller from which we bought the item. Mimicking the analysis in the proof of Theorem 5 we can see that the expected number of items bought from the $\kappa$ matched sellers is $\kappa F_S(q) \geq \frac{\kappa}{2eK} R$. Now we argue that $q \leq \frac{\mu_B}{2}$. Indeed, since $F_S(q) \leq \frac{1}{e}$ we know for sure that $q \leq \mu_S$, and so from Lemma 1 it is $q \leq e\mu_SF(q) \leq e\mu_S \frac{\mu_B}{\mu_S} \frac{1}{e} = \frac{\mu_B}{2}$. Next, notice that whenever we make a successful sale, the contribution to profit is $p - q \geq \mu_B - \frac{\mu_B}{2} = \frac{1}{2}\mu_B$. Thus, the total expected gain in profit from sales is at least

$$\kappa F_S(q)(1 - F_B(p))(p - q) \geq \kappa \frac{1}{2eK} \frac{\mu_S}{\mu_B} + 1 (1 - F_B(\mu_B)) \frac{1}{2}\mu_B \geq \frac{1}{4e^2} \frac{1}{K \kappa} \mu_B,$$

where in the bound for the quantile $1 - F_B(\mu_B)$ we used Property 1 of Theorem 1. Also, the profit we loose from the cost of unsold items cannot be more than $Kq \leq K\mu_S e \frac{1}{2eK} = O(\mu_S)$. On the other hand, the offline profit is at most $\kappa$ times the expected maximum order statistic out of $n$ independent draws from $F_B$, so by Property 3 of Theorem 1 it is upper bounded by $\kappa H_n \mu_B$. Putting everything together, the competitive ratio of the online algorithm is at most

$$\frac{\kappa H_n \mu_B}{\kappa \mu_B} = O(Kr \ln n).$$
Remark 1. We want to mention here that the above upper bound in Theorem 7, although a substantial improvement from the \( \Theta(\sqrt{n}) \) one for the general case in Theorem 5, it cannot be improved further: the logarithmic lower bound is unavoidable, since a careful inspection of the welfare lower bound in the proof of Lemma 4 reveals that the same analysis carries over to the profit. In particular, the last parenthesis of \( \mathbb{E}[Y \mid Y \geq \beta] - \mathbb{E}[Y \mid Y \geq \alpha] \) in (4) will be replaced by \( \beta - \alpha \) which is still nonnegative, and also the bad instance sequence of \( SB^n \) does not use a stock of size more than 1. We try to overcome this obstacles by considering a different model of constrained streams in the following section.

6 Balanced Sequences

As we saw in Section 5, introducing a restriction in the size of available stock can improve the performance of our online algorithms with respect to profit. However, the bound is still super-constant. Thus, it is perhaps more reasonable to assume some knowledge of the ratio \( \alpha \) between buyers and sellers in sequences the intermediary might face. This allows us finer control over the trade-off between high volume of trades and the hunt for greater order statistics.

In this section we analyse the competitive ratio for profit and welfare obtained by online algorithms on \( \alpha \)-balanced sequences.

Definition 1. Let \( \alpha \) be a positive integer. A sequence containing \( m \) buyers is called \( \alpha \)-balanced if it contains \( \alpha m \) sellers and the \( i \)-th buyer is preceded by at least \( \alpha i \) sellers.

For example, the sequence \( SBSSBSBB \) is 1-balanced, but \( SBBSSB \) is not. Similarly, \( SSSBSB \) is 2-balanced, while \( SSBSBSBB \) isn’t. Note that since \( n = n_S \frac{\alpha + 1}{\alpha} = n_B (\alpha + 1) \), we only need to know the number of buyers of a sequence. For convenience, we will denote it by \( m \) instead of \( n_B \), as it is used quite often.

6.1 Profit

We first work on profit, deriving bounds for a variety of online and offline mechanisms. Naturally, there are two types of offline mechanisms: adaptive and non-adaptive. The non-adaptive posted-price mechanism calculates all prices in advance based on the sequence of buyers and sellers, while the adaptive posted-price mechanism can alter the prices on the fly, depending on the outcomes of previous trades.

We show that there is a competitive online mechanism for \( \alpha \)-balanced sequences. To do this, we compare the optimal adaptive and non-adaptive profit to the profit of a class of hypothetical mechanisms, called fractional mechanisms, which are allowed to buy fractional quantities of items: posting the price \( p \) would buy exactly \( F_S(p) \) items or sell \( 1 - F_B(p) \) items. The advantage of using fractional mechanisms is that at any point we know the exact quantity of items in the hands of the intermediary instead of the expectation; an immediate consequence of this is that we know in advance whether there is enough quantity to sell, which implies that the adaptive and non-adaptive versions of the optimal fractional mechanism are identical.

We can now give an outline of the results in this section: For \( \alpha \)-balanced sequences \( \sigma \) with \( m \) buyers and \( \alpha m \) sellers, we establish the following relations of optimal profits:

\[
\text{adaptive}(\sigma) \leq \text{fractional}(\sigma) \leq \text{fractional}(S^{\alpha m}B^m) \approx \text{non-adaptive}(\sigma),
\]

the last of which will be our online algorithm. We begin by the fractional offline mechanism.
Theorem 8. The profit gained by the optimal fractional mechanism for the sequence $S^\alpha mB^m$ is

$$\max \ m \ (p(1 - F_B(p)) - \alpha \cdot qF_S(q))$$

s.t. $1 - F_B(p) = \alpha F_S(q)$

$$p, q \in [0, \infty).$$

(6)

Proof. The profit and optimal prices can be calculated through the following optimization:

$$\max \ \sum_{i=1}^{m} \ p_i(1 - F_B(p_i)) - \sum_{i=1}^{\alpha m} q_iF_S(q_i)$$

s.t. $\sum_{i=1}^{m} (1 - F_B(p_i)) \leq \sum_{i=1}^{\alpha m} F_S(q_i)$

$$p_i, q_i \in [0, \infty),$$

where $q_i$ and $p_i$ are the prices for buying and selling respectively. However, we can assume that the first constraint is tight, as all $q_i$’s can be lowered until equality is achieved, without hurting the trades happening in the second half of the sequence. Remember, these are not in expectation, but rather, fractions.

This constrained optimization can be reduced to finding stationary points of its Lagrange function

$$\mathcal{L} = \sum_{i=1}^{m} p_i(1 - F_B(p_i)) - \sum_{i=1}^{\alpha m} q_iF_S(q_i) - \lambda \left( \sum_{i=1}^{m} (1 - F_B(p_i)) - \sum_{i=1}^{\alpha m} F_S(q_i) \right).$$

Taking its derivative with respect to price $p_i$ we get:

$$(1 - F_B(p_i)) - p_i f_B(p_i) = -\lambda f_B(p_i) \iff p_i - \frac{1 - F_B(p_i)}{f_B(p_i)} = \lambda,$$

which has at most one solution for any given $\lambda$ due to the distribution being regular. The treatment of $q_i$’s is similar, leading to a unique solution as well. Thus, since $p_i = p$ and $q_i = q$ for all $i$ we obtain the stated result.

For other sequences containing $\alpha m$ sellers and $m$ buyers in a different order, we can use the following lemma to establish the middle part of inequality 5.

Lemma 5. For any $\alpha$-balanced $\sigma$ with $m$ buyers, fractional($\sigma$) $\leq$ fractional($S^\alpha mB^m$)

Proof. Let $q_i$, $p_i$ be the prices set by the optimal fractional mechanism for sequence $\sigma$. These prices have to satisfy $\sum_{i=1}^{m} (1 - F_B(p_i)) \leq \sum_{i=1}^{\alpha m} F_S(q_i)$, to ensure that the total quantity of items sold does not exceed the amount bought. Thus, the prices $p_i$, $q_i$ represent a feasible solution to the optimization problem for the sequence $S^\alpha mB^m$ and by definition, their profit is at most as much as the optimal.

Theorem 9. For any sequence $\sigma$ we have adaptive($\sigma$) $\leq$ fractional($\sigma$).

The intuition behind the proof of the theorem is that the optimal adaptive profit is bounded from above by the optimal fractional adaptive profit (since fractional mechanisms is a more general class of mechanisms); since in fractional mechanisms optimal adaptive and non-adaptive profits are the same, the theorem follows. For a more rigorous technical treatment, see Appendix A.
At this point, we have a clear model of the adversary’s power: the fractional mechanism’s revenue for sequence $S^m B^m$, setting only two prices $p, q$ for sellers and buyers. Could we do the same online? It seems likely. After all, long sequences of buyers and sellers seem to lead to a similar amount of trading on average by a mechanism setting the same prices.

Based on the previous discussion we propose the following online posted price algorithm:

- Use prices $p, q$ given by the optimal fractional solution for $S^m B^m$ (see Theorem 8).

This algorithm works without knowing the length of the sequence chosen by the adversary.

**Lemma 6.** Let $A$ be the online algorithm defined by the optimal fractional offline prices of (6). Consider two $\alpha$-balanced sequences $\sigma_1$ and $\sigma_2$ of equal length. We write $\sigma_1 \succ \sigma_2$ whenever every prefix of $\sigma_1$ contains more sellers than the prefix of $\sigma_2$ having equal length. Then, $\sigma_1 \succ \sigma_2 \Rightarrow \mathcal{R}(A, \sigma_1) \geq \mathcal{R}(A, \sigma_2)$

**Proof.** Assume the draws of $\sigma_1$ and $\sigma_2$ come from the same probability space, so that the $i$-th agent gets the same draw in both sequences. We will show that all trades (or at least as many) that happened in $\sigma_2$ will occur in $\sigma_1$. Let $i$ be the index of an arbitrary buyer that was matched to a seller in $\sigma_2$ and $k$ the number of items in stock when he arrives in $\sigma_1$. If $k > 0$, then we trade with him as we would do in $\sigma_2$. If $k = 0$, we have already traded at least as many items as $\sigma_2$ at this point. To see this, note that since $\sigma_1 \succ \sigma_2$, at least as many items have been bought from the first $i - 1$ agents of $\sigma_1$ than from $\sigma_2$ and because $k = 0$, at least as many have been traded.

Although not all sequences are comparable (e.g. $SSBBSB$ and $SBSSBB$), the sequence $(S^\alpha B)^m$ is the bottom element among all $\alpha$-balanced sequences of length $(\alpha + 1)m$. This is trivial, as any balanced sequence must have at least $\left\lceil \frac{i}{(\alpha+1)/\alpha} \right\rceil$ sellers for any prefix of length $i$ and $(S^\alpha B)^m$ is tight for this bound.

To formalize our intuition of making the same number of trades in the long run, we reformulate our algorithm in the more familiar setting of random walks. Instead of considering agents separately, each “timestep” would be one sub-sequence $S^\alpha B$, giving $m$ steps in total. Thus, we are interested in the random variables $Z_i$, denoting the items in stock at the end of each step, starting with $Z_0 = 0$. Knowing the algorithm buys $\alpha m F_S(q)$ items in expectation, the expected profit can be given by

$$\mathcal{R}((S^\alpha B)^m) = (\alpha m F_S(q) - E[Z_m])(p - q) - E[Z_m] q, \quad (7)$$

which is the revenue of the expected number of trades minus the cost of the unsold items.

**Lemma 7.** $E[Z_m] \leq \sqrt{2ma^2 \log m \left(1 - \frac{2}{m}\right) + 2}$

**Proof.** The process $Z_i$ is almost a martingale but not quite: clearly $E[Z_i] \leq \alpha m$ for all $i$ and we do have $E[Z_{i+1} | Z_i \geq 1] = Z_i$ since the expected change in items after that step is $\alpha F_S(q) - (1 - F_B(p)) = 0$ by Theorem 8. However, $E[Z_{i+1} | Z_i = 0] > Z_i$, by the no short selling assumption.

We can define $Y_i$ in the same probability space, where $Y_0 = 0$, and

$$Y_{i+1} = Y_i + \begin{cases} Z_{i+1} & \text{if } Y_i > 0 \\ -Z_{i+1} & \text{if } Y_i < 0 \\ Z_{i+1} & \text{with probability } \frac{1}{2} \\ -Z_{i+1} & \text{with probability } \frac{1}{2} \end{cases} \quad (8)$$
The crucial observation is that $Y_i$ behaves similar to $Z_i$ but has no barrier at 0. Notice, that $|Y_i| \geq Z_i$ for all $i$ and $Y_i$ is a martingale.

Moreover, we have that $|Y_{i+1} - Y_i| \leq \alpha$ thus by the Azuma-Hoeffding inequality we can bound the expected value $E[Z_m]$:

\[
\Pr[Z_m \geq x] \leq \Pr[|Y_m| \geq x] = \Pr[|Y_m - Y_0| \geq x] \leq 2e^{\frac{x^2}{2m\alpha^2}} \Rightarrow (9) \]

\[
E[Z_m] \leq x\left(1 - 2e^{\frac{x^2}{2m\alpha^2}}\right) + 2\alpha e^{\frac{x^2}{2m\alpha^2}}, \quad (10)
\]

where we can set $x = \sqrt{2m\alpha^2 \log m}$ to obtain the simpler form:

\[
E[Z_m] \leq \sqrt{2m\alpha^2 \log m} \left(1 - \frac{2}{m}\right) + 2\alpha. \quad (11)
\]

\[\square\]

**Lemma 8.** Let $r = \max\left\{2, \frac{\mu s}{\mu_B}\right\}$. The optimal value of Programme (6) is at least $m\frac{\mu s}{2e r}$. Furthermore, at any optimal solution the buyer price has to be at most $p \leq 4\ln(4e r)\mu_B$.

**Proof.** Consider the value of Programme (6) that corresponds to the solution determined by the seller price $q$ such that $F_S(q) = \frac{1}{e r}$. In a similar way to the proof of Theorem 5, it is again easy to see that $q \leq \mu s$ since $F_S(q) \leq \frac{1}{e}$, and so by Lemma 1 and the regularity of $F_S$ we get that $q \leq \frac{\mu s}{e r} \leq \frac{\mu s}{r \alpha}$. Furthermore, for the corresponding buyer price $p$ we have $1 - F_B(p) = \alpha F_S(q) = \frac{1}{e} \leq \frac{1}{e r}$, and so from Property 1 of Theorem 1 we get that $p \geq \mu_B$. Thus, the objective value of the particular solution is at least $m\alpha F_S(q)(p - q) \geq m\frac{1}{e r} (\mu_B - \frac{\mu s}{r}) = m\frac{\mu_B}{2e r}$.

Next, for the upper bound on the buyer price, consider a solution that has buyer price $\hat{p} = cp^*$ for $c \geq 1$, where $F_B(p^*) = 1 - \frac{1}{e}$. Then, since $F_B$ is an MHR distribution, $(1 - F_B(x))^{\frac{1}{x}}$ is decreasing with respect to $x$, as can be verified using that log(1 - $F_B(x)$) is concave (see e.g. [7]), so $1 - F_B(\hat{p}) \leq (1 - F_B(p^*))^{\frac{\hat{p}}{p^*}} = e^{-c}$. Furthermore, since $F_B(p^*) = 1 - \frac{1}{e}$, from Property 2 of Theorem 1 it must be that $p^* \leq 2\mu_B$, and thus $\hat{p} \leq 2c\mu_B$, resulting in

\[
1 - F_B(2c\mu_B) \leq 1 - F_B(\hat{p}) \leq e^{-c}.
\]

This means that if we use a solution with $p = 2c\mu_B$, for some $c \geq 1$, the objective value of the Programme cannot exceed $m(1 - F_B(p))(p - q) \leq me^{-c}2\mu_B$. So, unless this value is at least $m\frac{\mu_B}{2e r}$, the particular choice of $p$ cannot be part of an optimal solution. Thus, it must be $ce^{-c} \geq \frac{1}{4e r}$. It is not difficult to check that this requires $c \leq 2\ln(4e r)$, since $2\ln x - 2\ln x = \frac{2\ln x}{x^2} < \frac{1}{4}$ for any $x > 0$ and $ce^{-c}$ is a decreasing function for $c \geq 1$. As a result of the above analysis we can conclude that the buyer price $p$ of any optimal solution in Programme (6) must be such that $p < 2\mu_B$, or otherwise satisfy $p \leq 2 \cdot 2\ln(4e r) \cdot \mu_B = 4\ln(4e r)\mu_B$. In any case, the desired upper bound for $p$ in the theorem’s statement holds. \[\square\]

**Theorem 10.** Under our standard regularity assumptions, the proposed non-adaptive online mechanism is $(1 + o(\alpha^3/\sqrt{r\log r}))$-competitive for any balanced sequence, where $r = \max\left\{2, \frac{\mu s}{\mu_B}\right\}$.

**Proof.** Plugging (11) into (7), we get:

\[
\mathcal{R}(S^\alpha B)^m \geq \alpha m F_S(q)(p - q) - E[Z_m](p - q) - E[Z_m]q \geq \alpha m F_S(q)(p - q) - \left(\sqrt{2m^2 \log m} \left(1 - \frac{2}{m}\right) + 2\alpha\right)p \\
\geq \alpha m F_S(q)(p - q) - O(\alpha \sqrt{m \ln m p}). \quad (12)
\]
Using Lemma 5, Theorem 9 and Theorem 8 we know that for every \( \alpha \)-balanced sequence, the profit of our non-adaptive online algorithm is at least \( R((S^m B^m)_{\alpha m}) \) and the optimal offline is at most that of the fractional on sequence \( S^m B^m \), i.e. \( \alpha m F_S(q)(p - q) \). Thus, the second term in (12) bounds the additive difference of the online and optimal offline profit, and its ratio with respect to the offline profit is upper bounded by

\[
O \left( \frac{\alpha \sqrt{m \ln m p}}{\alpha m F_S(q)(p - q)} \right) = O \left( \frac{\alpha \sqrt{m \ln m \mu B \ln(4e r)}}{m^{2/3} e r} \right) = O \left( \frac{\ln n}{n r \log r} \right) = o\left( \frac{\alpha^{3/2} \sqrt{\ln n}}{n r \log r} \right),
\]

using \( m = n/(\alpha + 1) \).

\[ \square \]

**Remark 2.** Among all \( 1 \)-balanced sequences, the sequence that gives the maximum profit is not the sequence \( S^m B^m \); intuitively, by moving some buyers earlier in the sequence, we obtain an improved profit by adapting the remaining buying prices to the outcome of these potential trades. For example, it should be intuitively clear that the sequence \( S^{m/2} B^{m/2} B^{m-1} \) has (slightly) better adaptive profit than the sequence \( S^m B^m \) for large \( m \). Our work above shows that the difference is asymptotically insignificant, but it remains an intriguing question to determine the balanced sequence with the maximum profit.

### 6.2 Welfare

Welfare on balanced sequences also improves the competitive ratio of Theorem 2 to a constant. Intuitively, the reason is that the high volume of possible trades dampens the advantage the adversary has in obtaining higher order statistics from buyers. As before, the fact that all sellers start with some contribution to the welfare is also helpful.

**Theorem 11.** The online auction that posts to any seller and buyer the median of their distribution is \( 4 \)-competitive.

**Proof.** The algorithm buys from half the sellers in expectation, so in the end the welfare obtained just from sellers is at least:

\[
\mathbb{E} \left[ \sum_{t \in N_S \setminus I_S} X_t \right] = \sum_{t \in N_S} \mathbb{E} [X_t | X_t \geq q] (1 - F_S(q)) \geq \frac{1}{2} n_S \mu_S.
\]

Following the proof of Lemma 3, let \( \kappa \) denote the size the matching between sellers and buyers. Since the input is \( \alpha \)-balanced, we are guaranteed that every buyer is preceded by some distinct seller, meaning that \( \kappa \) is exactly \( N_B \). The welfare obtained from buyers is

\[
\kappa \Pr [X_S \leq q] \Pr [X_B \geq p] \mathbb{E} [X_B | X_B \geq p] \geq \frac{1}{4} n_B \mu_B.
\]

Adding everything together, the online algorithm gets at least \( \frac{1}{4}(n_B \mu_B + n_S \mu_S) \). On the other hand the optimal welfare is at most:

\[
\mathbb{E} \left[ \sum_{t \in N_S \setminus I_S} X_t + \sum_{t \in I_B} X_t \right] \leq \mathbb{E} \left[ \sum_{t \in N_S} X_t + \sum_{t \in N_B} X_t \right] = n_S \mu_s + n_B \mu_B.
\]

\[ \square \]

Notice that the above theorem holds without any regularity assumption on the agent value distributions.
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A Omitted Proofs

**Lemma 9.** The matching computed using an online FIFO queue of size $K$, adding sellers while it’s not full and popping them when a buyer is encountered, in the proof of Theorem 7 is a maximum one.

**Proof.** We show this for the limited stock case. The general case works similarly, or follows by setting $K$ large enough. Let $M_{on}$ be the matching computed by our FIFO algorithm, and let $M$ be any arbitrary maximum matching in the graph induced by $\sigma$. We will show that we can transform $M$ into $M_{on}$ using a series of changes that do not reduce its size.

Let $i$ be the index of the first vertex that is not matched in the same way in $M_{on}$ and $M$. That is, all edges in $M_{on}$ and $M$ that are either between vertices before $i$, or originate at a vertex before $i$, are identical in both matchings. (There cannot be any matchings that terminate in a vertex smaller than $i$ but originate after $i$ due to the construction of the graph.) We will show using a case-by-case analysis that we can change $M$ into $M'$ so that $i$ is matched the same way as in $M_{on}$, without changing any edges originating before $i$, and with $|M| = |M'|$. It follows that we can repeat this procedure until $M$ is transformed into $M_{on}$, and thus $|M| = |M_{on}|$, i.e. $M_{on}$ is a maximum matching.

1. If $i$ is a buyer: This is not possible. If $i$ is matched in either matching, the edge is originating from a vertex before $i$, and thus must be the same in both matchings by our hypothesis.

2. If $i$ is a seller.

   (a) If $i$ is matched in both matchings. Let $j_{M_{on}}$ be its match in $M_{on}$, and $j_M$ in $M$. 


i. \( j_{\mathcal{M}_{on}} < j_{\mathcal{M}} \)
   A. \( j_{\mathcal{M}_{on}} \) unmatched in \( \mathcal{M} \). Make edge \( i j_{\mathcal{M}} \) into \( i j_{\mathcal{M}_{on}} \). Can’t violate \( K \)-limit this way, as we’re making the edge shorter.
   B. \( j_{\mathcal{M}_{on}} \) matched in \( \mathcal{M} \). Make edge \( i j_{\mathcal{M}} \) into \( i j_{\mathcal{M}_{on}} \), and match the seller originally matched to \( j_{\mathcal{M}_{on}} \) in \( \mathcal{M} \) with \( j_{\mathcal{M}} \). We can’t violate the \( K \)-limit this way.

ii. \( j_{\mathcal{M}} < j_{\mathcal{M}_{on}} \) - This is not possible.
   A. It is not possible that \( j_{\mathcal{M}} \) is unmatched in \( \mathcal{M}_{on} \), as we encounter it before \( j_{\mathcal{M}_{on}} \), and would have matched \( i \) to it.
   B. It is not possible that \( j_{\mathcal{M}} \) is matched to a seller other than \( i \) in \( \mathcal{M}_{on} \). Not to one before \( i \) by hypothesis, and not to one after \( i \) by construction of the FIFO algorithm.

(b) If \( i \) is matched in \( \mathcal{M}_{on} \) but not in \( \mathcal{M} \). Let \( j_{\mathcal{M}_{on}} \) be \( i \)’s match in \( \mathcal{M} \).
   i. \( j_{\mathcal{M}_{on}} \) unmatched in \( \mathcal{M} \). This cannot happen. Notice that we cannot have any buyers between \( i \) and \( j_{\mathcal{M}_{on}} \) that are unmatched in \( \mathcal{M}_{on} \), nor can we have any that are matched to sellers after \( i \). Thus, all buyers between \( i \) and \( j_{\mathcal{M}_{on}} \) are matched to sellers before \( i \) in both \( \mathcal{M}_{on} \) and \( \mathcal{M} \). There can be at most \( K - 1 \) of them, as there is one more edge originating from \( i \) in \( \mathcal{M}_{on} \), and a cut between \( i \) and \( i + 1 \) has size at most \( K \) in \( \mathcal{M}_{on} \). Therefore, we could add the edge \( i j_{\mathcal{M}_{on}} \) to \( \mathcal{M} \) without violating the \( K \)-limit. Thus \( \mathcal{M} \) was not maximum, contradicting out assumption.
   ii. \( j_{\mathcal{M}_{on}} \) matched in \( \mathcal{M} \). Let \( s_{\mathcal{M}} \) be the seller matched to \( j_{\mathcal{M}_{on}} \) in \( \mathcal{M} \). Again, all buyers between \( i \) and \( j_{\mathcal{M}_{on}} \) are matched to sellers before \( i \) in both matchings. So we can replace \( s_{\mathcal{M}} j_{\mathcal{M}_{on}} \) with \( s_{\mathcal{M}} j_{\mathcal{M}_{on}} \) without violating the \( K \)-limit.

(c) If \( i \) is matched in \( \mathcal{M} \) but not in \( \mathcal{M}_{on} \). Let \( j_{\mathcal{M}} \) be its match in \( \mathcal{M} \).
   i. \( j_{\mathcal{M}} \) is matched in \( \mathcal{M}_{on} \). This cannot happen due to the FIFO construction.
   ii. \( j_{\mathcal{M}} \) is unmatched in \( \mathcal{M}_{on} \). This cannot happen. If \( i \) were to enter the FIFO queue, it would be matched to \( j_{\mathcal{M}} \) (or an earlier available buyer) in \( \mathcal{M}_{on} \). If \( i \) does not enter the FIFO queue this can only be because the queue was full. But if the queue was full, this means that \( K \) sellers before \( i \) were matched to buyers between \( i \) and \( j_{\mathcal{M}} \) (otherwise \( j_{\mathcal{M}} \) would be matched to one of them if \( \mathcal{M}_{on} \)). So there is \( K \) edges going from sellers before \( i \) to buyers between \( i \) and \( j_{\mathcal{M}} \) in \( \mathcal{M}_{on} \). So there is also \( K \) edges going that way in \( \mathcal{M} \), as they are identical on vertices before \( i \). So there is \( K + 1 \) edges going from nodes before and including \( i \) to vertices after \( i \) in \( \mathcal{M} \), violating the \( K \) item limit.

\[ \square \]

**Theorem 9.** For any sequence \( \sigma \) we have \( \text{adaptive}(\sigma) \leq \text{fractional}(\sigma) \).

**Proof.** Fix an adaptive mechanism and let \( Q_i \) be the price posted to seller \( i \) and \( \hat{Q}_i \) be the probability of sale at price \( Q_i \). Since in an adaptive mechanism the price depends on the history, \( Q_i \) and \( \hat{Q}_i \) are random variables. Similarly define \( P_j \) and \( \tilde{P}_j \) to be the price and probability of buying from buyer \( j \). For the payments to sellers and from buyers we have:

\[
E[Q_i F_S(Q_i)] = E[\hat{Q}_i F_S^{-1}(\hat{Q}_i)] \\
E[P_j (1 - F_B(P_j))] = E[\tilde{P}_j F_B^{-1}(1 - \tilde{P}_j)].
\]

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Summing over all agents we get the expected profit:

\[
\sum_{j \in N_B} \mathbb{E}[P_j(1 - F_B(P_j))] - \sum_{i \in N_S} \mathbb{E}[Q_iF_S(Q_i)]
\]

\[
= \sum_{j \in N_B} \mathbb{E} \left[ \tilde{P}_j F_B^{-1}(1 - \tilde{P}_j) \right] - \sum_{i \in N_S} \mathbb{E} \left[ \tilde{Q}_i F_S^{-1}(\tilde{Q}_i) \right]
\]

\[
\leq \sum_{j \in N_B} \mathbb{E} \left[ \tilde{P}_j \right] F_B^{-1}(1 - \mathbb{E} \left[ \tilde{P}_j \right]) - \sum_{i \in N_S} \mathbb{E} \left[ \tilde{Q}_i \right] F_S^{-1}(\mathbb{E} \left[ \tilde{Q}_i \right]),
\]

(13)

where the last inequality follows from our regularity assumptions. Note that in the last inequality \( F_B^{-1}(1 - \mathbb{E} \left[ \tilde{P}_j \right]) \) and \( F_S^{-1}(\mathbb{E} \left[ \tilde{Q}_i \right]) \) can be interpreted as prices set by the fractional mechanism, with \( \mathbb{E} \left[ \tilde{P}_j \right] \) and \( \mathbb{E} \left[ \tilde{Q}_i \right] \) the fractions of items bought and sold.

We have obtained the objective function of the optimization and it is left to a set of inequalities concerning the prices, to serve as the constraints. Observe that \( \mathbb{E} \left[ \tilde{Q}_i \right] \) is the expected number of items bought from seller \( i \), while \( \mathbb{E} \left[ \tilde{P}_j \right] \) sold to buyer \( j \). Let \( S_t \) and \( B_t \) be the sets of indices of sellers and buyers contained in the first \( t \) agents of the sequence.

Let \( Z_t \) be the number of items exchanged with the agent encountered at step \( t \). The number of items currently held by the intermediary at time \( t \) is \( \sum_{i=1}^{t} Z_i \geq 0 \) by the no short selling assumption. Thus for all \( t \):

\[
\mathbb{E} \left[ \sum_{i=1}^{t} Z_i \right] = \sum_{i \in S_t} \mathbb{E} [Z_i] - \sum_{j \in B_t} \mathbb{E} [Z_j]
\]

\[
= \sum_{i \in S_t} \mathbb{E} \left[ \mathbb{E} \left[ Z_i | \tilde{Q}_i \right] \right] - \sum_{j \in B_t} \mathbb{E} \left[ \mathbb{E} \left[ Z_j | \tilde{P}_j \right] \right]
\]

\[
= \sum_{i \in S_t} \mathbb{E} \left[ \tilde{Q}_i \right] - \sum_{j \in B_t} \mathbb{E} \left[ \tilde{P}_j \right] \geq 0
\]

(14)

Combining (13) and (14) gives us exactly the same optimization problem the optimal fractional mechanism would face for that sequence. □