GAMBLING IN CONTESTS WITH RANDOM INITIAL LAW

HAN FENG AND DAVID HOBSON

Abstract. This paper studies a variant of the contest model introduced in Seel and Strack [2013]. In the Seel-Strack contest, each agent or contestant privately observes a Brownian motion, absorbed at zero, and chooses when to stop it. The winner of the contest is the contestant who stops at the highest value. The model assumes that all the processes start from a common value \( x_0 > 0 \) and the symmetric Nash equilibrium is for each agent to utilise a stopping rule which yields a randomised value for the stopped process. In the two-player contest this randomised value should have a uniform distribution on \([0, 2x_0]\).

In this paper we consider a variant of the problem whereby the starting values of the Brownian motions are independent, non-negative, random variables that have a common law \( \mu \). We consider a two-player contest and prove the existence and uniqueness of a symmetric Nash equilibrium for the problem. The solution is that each agent should aim for the target law \( \nu \), where \( \nu \) is greater than or equal to \( \mu \) in convex order; \( \nu \) has an atom at zero of the same size as any atom of \( \mu \) at zero, and otherwise is atom free; on \((0, \infty)\) \( \nu \) has a decreasing density; and the density of \( \nu \) only decreases at points where the convex order constraint is binding.

1. Introduction

Seel and Strack [2013] introduced a contest model in which each agent chooses a stopping rule to stop a privately observed stochastic process. The contestant who stops her process at the highest value wins a prize. The objective of each agent is not to maximise the expected stopping value, but rather to maximise the probability that her stopping value is the highest amongst the set of stopping values of all the contestants. The Seel-Strack contest is a stylised model of a competition between fund managers, where each manager aims to outperform all the others in order to obtain more funds to invest over the next time period.

The modelling assumptions of Seel and Strack [2013] include the fact that the privately observed stochastic processes are independent realisations of a common non-negative, time-homogeneous diffusion process (and then after a change of scale and time they may be assumed to be Brownian motions absorbed at zero, see Feng and Hobson [2014]). Further it is assumed that contestants are unable to observe both the realisations and the stopping times of their rivals.

Seel and Strack studied the symmetric case where the contestants observe processes which all start from the same strictly positive constant. In this paper we will discuss an extension of the Seel-Strack problem to randomised initial values, whereby the starting values of the Brownian motions are drawn independently from the (commonly known) distribution \( \mu \), and \( \mu \) is an integrable probability measure on \( \mathbb{R}^+ \). We will focus on the two-player case.

Seel and Strack found that in equilibrium players use randomised strategies, so that the level at which the player should stop is stochastic. Moreover, the set of values at which the agent should stop forms an interval which is bounded above. Our results will include that in equilibrium players use randomised strategies and the set of stopping values forms an interval (but now the interval may not be bounded from above).

Seel and Strack solved their problem by proposing a candidate value function for the problem, and then verifying that this candidate is a martingale under an optimal stopping rule for each agent. We solve the problem in a different way using a Lagrangian approach.

The paper is structured as follows. In Section 2, we introduce the mathematical model of the contest. We will see that a Nash equilibrium is identified with a pair of probability measures. In Section 3 we state...
the main theorems which characterise the unique symmetric Nash equilibrium and give some examples. A proof of the characterisation theorem is given in Section 4. Following some preliminary results in Section 5 which are potentially of independent interest, Section 6 includes an explicit construction of the symmetric Nash equilibrium in the case where the starting random variable takes only a finite number of distinct values, and then an extension of the existence result to general measures. Uniqueness of the equilibrium is proved in Section 7.

2. The model

Consider a contest between two agents. Agent $i \in \{1, 2\}$ privately observes the continuous-time realisation of a Brownian motion $X^i = (X^i_t)_{t \in \mathbb{R}^+}$ absorbed at zero, where the processes $X^i$ are independent. Seel and Strack assume $X^0_0 = x_0$ for some positive real number $x_0$ which does not depend on $i$. The innovation in this paper is that we assume $X^0_t \sim \mu$, where $\mu$ is the law of a non-negative random variable with finite mean $\mu \in (0, \infty)$. The values of $(X^i_0)_{i=1,2}$ are assumed to be independent draws from the law $\mu$.

Let $\mathcal{F}^i_t = \sigma\{X^i_s : s \leq t\}$ and set $\mathbb{F}^i = (\mathcal{F}^i_t)_{t \geq 0}$. A strategy of agent $i$ is a $\mathbb{F}^i$-stopping time $\tau^i$. Since zero is absorbing for $X^i$, without loss of generality we may restrict attention to $\tau^i \leq H^0 = \inf\{t \geq 0 : X^i_t = 0\}$. Both the process $X^i$ and the stopping time $\tau^i$ are private information to agent $i$. That is, $X^i$ and $\tau^i$ cannot be observed by the other agent.

The agent who stops at the highest value wins a prize, which we normalize to one without loss of generality. In the case of a tie in which both agents stop at the equal highest value, we assume that each of them wins $\theta$, where $\theta \in (0, 1)$. Therefore player $i$ with stopping value $X^i_{\tau^i}$ receives payoff

$$1_{\{X^i_{\tau^i} > X^j_{\tau^j}, \tau^i = \tau^j\}} + \theta 1_{\{X^i_{\tau^i} = X^j_{\tau^j}\}}.$$ 

Seel and Strack [2013] observed that since the payoffs to the agents only depend upon $\tau^i$ via the distribution of $X^i_{\tau^i}$, the problem of choosing the optimal stopping time $\tau^i$ can be reduced to a problem of finding the optimal distribution of $X^i_{\tau^i}$, or equivalently an optimal target law. Once we have found the optimal target law $\nu^i$, the remaining problem is to verify that there exists $\tau^i$ such that $X^i_{\tau^i} \sim \nu^i$. This is the classical Skorokhod embedding problem (Skorokhod [1965]) for which solutions are well known (see Obloj [2004] and Hobson [2011] for surveys). Note that there are typically multiple solutions to the embedding problem for a given target law, and any of these solutions can be used to construct an optimal stopping rule. We will identify a solution with the distribution of $X^i_{\tau^i}$, rather than with the stopping rule itself, so that when we talk about a unique equilibrium the uniqueness will refer to the target distribution and not to the stopping rule.

We now introduce some notation which will be used throughout the paper. Let $\mathcal{M}$ be the set of integrable measures on $\mathbb{R}^+ = [0, \infty)$ with finite total mass, and let $\mathcal{P}$ be the subset of $\mathcal{M}$ consisting of integrable probability measures on $\mathbb{R}^+$. Let $\delta_x \in \mathcal{P}$ be the unit mass at $x$ and let $\mu_x \in \mathcal{P}$ be the uniform distribution on $[0, 2x]$ (with mean $x$).

For $\omega \in \mathcal{M}$ let $\omega_x = \int_0^\infty x \omega(dx)$, and define the right-continuous distribution function $F_\omega : [0, \infty) \to [0, \omega(\mathbb{R}^+)]$ by $F_\omega(x) = \omega([0, x])$. In the sequel we occasionally want to consider $F_\omega$ as a function on $(-\infty, \infty)$ in which case we set $F_\omega(x) = 0$ for $x < 0$. Define also the call and put price functions $C_\omega : [0, \infty) \to [0, \omega]$ and $P_\omega : [0, \infty) \to [0, \omega]$ by

$$C_\omega(x) = \int_x^\infty (y - x) \omega(dy) \quad P_\omega(x) = \int_0^x (x - y) \omega(dy).$$

Note that $C_\omega(x) - P_\omega(x) = \int_0^\infty y \omega(dy) - x \int_0^\infty \omega(dy) = \omega - x \omega(\mathbb{R}^+)$ and if $\omega(\mathbb{R}^+) = \chi(\mathbb{R}^+)$ then

$$\lim_{x \to \infty} \left( P_\omega(x) - P_\chi(x) \right) = \lim_{x \to \infty} \left( P_\omega(x) - x \omega(\mathbb{R}^+) \right) - \lim_{x \to \infty} \left( P_\chi(x) - x \chi(\mathbb{R}^+) \right) = \chi - \omega.$$

If $\chi \in \mathcal{M}$ then $\chi$ is less than or equal to $\omega$ in convex order (written $\chi \leq_{cx} \omega$) if and only if $\chi(\mathbb{R}^+) = \omega(\mathbb{R}^+)$, $\chi - \omega$ and $C_\chi(x) \leq C_\omega(x)$ for all $x \geq 0$. This last condition can be rewritten in terms of puts as $P_\chi(x) \leq P_\omega(x)$ for all $x \geq 0$. 

Electronic copy available at: http://ssrn.com/abstract=2443729
Note that if $\chi \leq_{cx} \varpi$, then $C_\chi(0) = C_\varpi(0)$ and $\chi(\{0\}) = F_\chi(0) = \chi(\mathbb{R}^+) + C'_{\chi}(0+) \leq \varpi(\mathbb{R}^+) + C'_{\varpi}(0+) = F_\varpi(0) = \varpi(\{0\})$.

Suppose $\chi, \varpi \in \mathcal{P}$, then it is well known (see for example Chacon and Walsh [1976]) that for Brownian motion $X$ with $X_0 \sim \chi$, there exists a stopping time $\tau$ for which $(X_{t+\tau})_{t\geq 0}$ is uniformly integrable and $X_\tau \sim \varpi$ if and only if $\chi \leq_{cx} \varpi$. In our context we do not necessarily want to insist on uniform integrability, but rather that the stopping time occurs before the first hit of $X$ on zero.

**Lemma 2.1.** Let $X$ be a Brownian motion absorbed at zero with initial law $\chi \in \mathcal{P}$. Then, there exists a stopping time $\tau$ with $X_\tau \sim \varpi$ if and only if $P_\chi(x) \leq P_\varpi(x)$ for all $x \geq 0$.

**Proof.** Since $(X_{t\wedge H_\chi})_{t\geq 0}$ is a non-negative supermartingale, by a conditional version of Jensen’s inequality,

$$E[(x - X_\tau^+|\mathcal{F}_0] \geq (x - E[X_\tau|\mathcal{F}_0]^+ \geq (x - X_0)^+$$

and then

$$P_\chi(x) = E[(x - X_\tau)^+|\mathcal{F}_0] = E[E[(x - X_\tau)^+|\mathcal{F}_0]] \geq E[(x - X_0)^+] = P_\chi(x).$$

Conversely, the existence follows from results of Röst [1971]. □

**Definition 2.1.** Given $\mu \in \mathcal{M}$, we say that $\nu \in \mathcal{M}$ is weakly admissible (with respect to $\mu$) if $\nu(\mathbb{R}^+) = \mu(\mathbb{R}^+)$ and $P_\nu(x) \geq P_\mu(x)$ for all $x \geq 0$.

We say that $\nu$ is strongly admissible (with respect to $\mu$) if $\nu$ is weakly admissible and $\varpi = \overline{\nu}$.

Note that if $\nu$ is weakly admissible then necessarily $\nu(\{0\}) \geq \mu(\{0\})$ and $\varpi \leq \overline{\nu}$ by (1). If $\nu$ is strongly admissible then $\nu \leq_{cx} \nu$.

These definitions are motivated by the fact that if $X$ is Brownian motion with $X_0 \sim \mu \in \mathcal{P}$ and $\nu \in \mathcal{P}$ is weakly admissible with respect to $\mu$ then there exists $\tau \leq H_\varphi := \inf\{u > 0 : X_u = 0\}$ such that $X_\tau \sim \nu$, and if $\nu$ is strongly admissible then there exists $\tau$ such that $X_\tau \sim \nu$ and $(X_{t\wedge \tau})_{t\geq 0}$ is uniformly integrable.

**Definition 2.2.** The pair of weakly admissible measures $(\nu^1, \nu^2)$ with $\nu^i \in \mathcal{P}$ forms a Nash equilibrium if, for each $i \in \{1, 2\}$, given that the other agent $j = 3 - i$ uses a stopping rule $\tau^j$ such that $X^i_{\tau^i} \sim \nu^j$, then any stopping rule $\tau^i$ such that $X^i_{\tau^i} \sim \nu^i$ is optimal.

If $(\nu, \nu)$ forms a Nash equilibrium then the equilibrium is symmetric.

A Nash equilibrium may be characterised as follows. Let $V^i_{\chi, \varpi}$ denote the value of the game to player $i$ if Player 1 uses a stopping rule which yields law $\chi$ for $X^i_{\tau^1}$, and Player 2 uses a stopping rule which yields law $\varpi$ for $X^1_{\tau^2}$. Then $(\sigma, \nu)$ is a Nash equilibrium if $V^i_{\sigma, \nu} = \sup_{\nu^i} V^1_{\sigma, \nu^i}$ and $V^2_{\sigma, \nu} = \sup_{\nu^2} V^2_{\sigma, \nu^2}$, where the suprema are taken over the set of weakly admissible measures. A symmetric Nash equilibrium is a weakly admissible measure $\nu$ such that $V^1_{\nu, \nu} = \sup_{\nu^1} V^1_{\nu, \nu^1}$, where again the supremum is taken over weakly admissible measures $\nu$.

Our paper investigates the existence and uniqueness of a symmetric Nash equilibrium. It seems natural that a Nash equilibrium is symmetric, since the contest is symmetric in the sense that each agent observes a martingale process started from the same law $\mu$. Then simple arguments over rearranging mass can be used to show that it is never optimal for two agents to put mass at the same positive point $x$, and further that any symmetric Nash equilibrium must be strongly admissible. The proof of Theorem 2.1 is in Appendix A.

**Theorem 2.1.** Suppose $(\nu, \nu)$ is a Nash equilibrium. Then $\nu$ is strongly admissible, $F_\nu(x)$ is continuous on $(0, \infty)$ and $F_\nu(0) = F_\mu(0)$.

3. Main Results and Examples

In this section, we describe the main results concerning existence and uniqueness of a symmetric Nash equilibrium for the contest, and give examples.

**Definition 3.1.** Suppose $\mu \in \mathcal{M}$. Let $A^\mu_\nu \subseteq \mathcal{M}$ be the set of measures $\nu$ satisfying

(i) $\nu(\mathbb{R}^+) = \mu(\mathbb{R}^+)$, $F_\nu(0) = F_\mu(0)$, $F_\nu$ is continuous on $(0, \infty)$, $\varpi = \overline{\nu}$, and $C_\nu(x) \geq C_\mu(x)$ for all $x \geq 0$;
(ii) $F_\nu(x)$ is concave on $[0,\infty)$; 
(iii) if $C_\nu(x) > C_\mu(x)$ on some interval $J \subset [0,\infty)$ then $F_\nu(x)$ is linear on $J$.

The two main results in this article are a theorem which characterises symmetric Nash equilibria, and a theorem which proves that a symmetric Nash equilibrium exists and is unique.

**Theorem 3.1.** If $\mu \in \mathcal{P}$ then $(\nu^*,\nu^*)$ is a symmetric Nash equilibrium for the problem if and only if $\nu^* \in \mathcal{A}_{\mu}^*$. 

**Theorem 3.2.** For $\mu \in \mathcal{M}$, $|\mathcal{A}_{\mu}^*| = 1$. In particular, if $\mu \in \mathcal{P}$ then there exists a unique symmetric Nash equilibrium for the problem.

Before proving Theorems 3.1 and 3.2 we present some examples.

**Example 3.1.** Recall that $\varrho_x = U[0,2x]$, where $U$ stands for the continuous uniform distribution. Suppose $\mu \in \mathcal{P}$ satisfies $C_\mu \leq C_{\varrho_x}$. Then it is easy to see that $\varrho_{\varphi} \in \mathcal{A}_{\mu}^*$, and thus $(\varrho_{\varphi},\varrho_{\varphi})$ is the unique symmetric Nash equilibrium for the problem.

**Example 3.2.** Suppose $\mu \in \mathcal{P}$ is atom-free, except perhaps for an atom at zero. Set $b_\mu = \mathop{\sup}\{x : F_\mu(x) < 1\}$. If $F_\mu$ is concave on $[0,b_\mu]$, then $\mu \in \mathcal{A}_{\varphi}^*$ and $(\mu,\mu)$ is the unique symmetric Nash equilibrium for the problem. If $F_\mu$ is convex on $[0,b_\mu]$ and $F_\mu(0) = 0$, then it can be verified that $C_\mu \leq C_{\varphi_1}$ (see Proposition 5.1 for a detailed proof), and thus $(\varphi_1,\varphi_1)$ is the unique symmetric Nash equilibrium for the problem.

**Example 3.3.** (Beta distribution) Suppose $\mu$ is a Beta distribution on $[0,1]$ with shape parameters $\alpha = 2$ and $\beta = 3$, that is $\mu = \text{Beta}(2,3)$. Then, the mean of $\mu$ is $2/5$, $C_\mu(x) = \left(\frac{2}{5}x^5 - 2x^4 + 2x^3 - x + \frac{2}{5}\right)1_{(x \leq 1)}$, and $F_\mu(x) = \min\{3x^3 - 8x^2 + 6x^2, 1\}$. Since $F_\mu(x)$ is convex on $[0,\frac{5}{3}]$ and concave on $[\frac{5}{3},1)$, the equilibrium measure $\nu$ must satisfy that $C_\nu(x) = c_1 x^2 - x + \frac{2}{5}$ on $[0,c_2]$, where $c_1 > 0$ and $c_2 > 0$ are constants. Moreover, $c_1$ and $c_2$ satisfy $C_\mu(c_2) = c_1 c_2^2 - c_2 + \frac{2}{5}$ and $C_\mu(c_2) = 2c_1 c_2 - 1$. Solving the system of equations, we obtain $c_1 = \frac{4\sqrt{10} + 140}{243}$ and $c_2 = \frac{10 - \sqrt{10}}{9}$. Let $\nu$ be such that $C_\nu = C$ where

$$C(x) = \left(c_1 x^2 - x + \frac{2}{5}\right) \cdot 1_{x \in [0,c_2]} + C_\mu(x) \cdot 1_{x \in [c_2,\infty)}.$$ 

It is easily seen that $\nu \in \mathcal{A}_{\mu}^*$. Thus, $(\nu,\nu)$ is the unique symmetric Nash equilibrium for the problem.

**Example 3.4.** (Atomic measure) Suppose that $\mu = \frac{1}{2} \delta_{-\epsilon} + \frac{1}{2} \delta_{1+\epsilon}$, where $\epsilon \in (0,1)$, and $\delta_x$ is a Dirac measure on set $\{x\}$. Then

$$C_\mu(x) = (1-x) \cdot 1_{x \in [0,1-\epsilon]} + \frac{1}{2} (1+\epsilon-x) \cdot 1_{x \in [1-\epsilon,1+\epsilon]}.$$ 

Suppose $\epsilon \in (0,1/2]$. Then $C_\mu \leq C_\varphi$, where $\varphi = U[0,2]$, and then $(\varphi,\varphi)$ is the unique symmetric Nash equilibrium for the problem.

Now suppose $\epsilon \in (1/2,1)$. Define the function $C$ by

$$C(x) = \frac{x^2 - 8(1-\epsilon)(x-1)}{8(1-\epsilon)} \cdot 1_{x \in [0,2(1-\epsilon)]} + \frac{x^2 - 8\epsilon x + 16\epsilon^2}{8(3\epsilon - 1)} \cdot 1_{x \in [2(1-\epsilon),4\epsilon]},$$ 

and let $\nu$ be given by $C_\nu(x) = C(x)$. Then $\nu \in \mathcal{A}_{\mu}^*$. Hence, $(\nu,\nu)$ is the unique symmetric Nash equilibrium for the problem if $\epsilon \in (1/2,1)$.

4. **Sufficiency**

**Proof of Reverse Implication of Theorem 3.1.** We show that if $\mu \in \mathcal{P}$ and $\nu \in \mathcal{A}_{\mu}^*$ then $(\nu,\nu)$ is a symmetric Nash equilibrium. The statement that if $(\nu,\nu)$ is a symmetric Nash equilibrium then $\nu \in \mathcal{A}_{\mu}^*$ is given in the appendix.

Given $\mu \in \mathcal{P}$, define the classes of measures $\mathcal{A}_{\mu}^w = \{\nu \in \mathcal{M}, \nu$ weakly admissible with respect to $\mu\}$ and $\mathcal{A}_{\mu}^s = \{\nu \in \mathcal{M}, \nu$ strongly admissible with respect to $\mu\}$. Recall also the definition of $\mathcal{A}_{\mu}^*$ in (3.1).
Using the properties of Theorem 2.1 we find that a symmetric Nash equilibrium is identified with a measure $\nu^* \in A^*_\mu$ with the property that, for any $\nu \in A^\mu$, $V^1_{\nu^*} \geq V^1_{\nu^*}$. Since again by Theorem 2.1 we have that $\nu^*$ has no atoms on $(0, \infty)$ for a symmetric Nash equilibrium we must have that

$$\int_{(0, \infty)} F_{\nu^*}(x)\nu^*(dx) + \theta F_{\nu^*}(0)F_{\nu^*}(0) \geq \int_{(0, \infty)} F_{\nu^*}(x)\nu(dx) + \theta F_{\nu^*}(0)F_{\nu}(0).$$

(2)

Fix $\nu^* \in A^*_\mu$ and suppose $\nu \in A^\mu$. Suppose that $\lambda, \gamma$ and $\zeta$ are finite constants and $\eta$ is a measure on $(0, \infty)$, and suppose $\lambda$ and $\zeta$ are non-negative. Define

$$\mathcal{L}_{\nu^*}(\nu; \lambda, \gamma, \zeta, \eta) = \int_{(0, \infty)} F_{\nu^*}(x)\nu(dx) + \theta F_{\nu^*}(0)F_{\nu}(0)$$

$$\quad + \lambda \left( \mu - \int_{(0, \infty)} x\nu(dx) \right) + \gamma \left( 1 - \int_{(0, \infty)} \nu(dx) - F_{\nu}(0) \right)$$

$$\quad + \zeta \left( F_{\nu}(0) - F_{\mu}(0) \right) + \int_{(0, \infty)} (P_\nu(z) - P_\mu(z))\eta(dz)$$

$$= \int_{(0, \infty)} \left( F_{\nu^*}(x) - \lambda x - \gamma + \int_{(x, \infty)} (z - x)\eta(dz) \right)\nu(dx) + \lambda \mu + \gamma$$

$$\quad + \left( \theta F_{\nu^*}(0) - \gamma + \zeta + \int_{(0, \infty)} z\eta(dz) \right)F_{\nu}(0) - \int_{(0, \infty)} P_\nu(z)\eta(dz) - \zeta F_{\mu}(0).$$

(3)

Rearranging (3), then since $\lambda \geq 0, \zeta \geq 0$ and $\eta(dz) \geq 0$ and since $\nu \in A^\mu$ implies that $F_{\nu}(0) \geq F_{\mu}(0)$ and $P_{\nu}(z) \geq P_{\mu}(z)$ $\forall z \geq 0$, we find

$$\int_{(0, \infty)} F_{\nu^*}(x)\nu(dx) + \theta F_{\nu^*}(0)F_{\nu}(0)$$

$$= \mathcal{L}_{\nu^*}(\nu; \lambda, \gamma, \zeta, \eta) - \lambda(\mu - \nu) - \zeta \left( F_{\nu}(0) - F_{\mu}(0) \right) - \int_{(0, \infty)} (P_\nu(z) - P_\mu(z))\eta(dz)$$

$$= \int_{(0, \infty)} F_{\nu^*}(x)\nu(dx) + \theta F_{\nu^*}(0)F_{\nu}(0) = \mathcal{L}_{\nu^*}(\nu^*; \lambda, \gamma, \zeta, \eta).$$

(4)

Furthermore, if $\eta$ is such that $\eta(J) = 0$ for every interval $J$ for which $P_{\nu^*}(z) > P_{\mu}(z)$ on $J$, then since $\nu^*$ has mean $\mu$ and $F_{\nu^*}(0) = F_{\mu}(0)$,

$$\int_{(0, \infty)} F_{\nu^*}(x)\nu^*(dx) + \theta F_{\nu^*}(0)F_{\nu^*}(0) = \mathcal{L}_{\nu^*}(\nu^*; \lambda, \gamma, \zeta, \eta).$$

(5)

Define $b^* = \sup \{ x : F_{\nu^*}(x) < 1 \}$ so that $b^* \leq \infty$. Since $F_{\nu^*}$ is continuous and concave, it is absolutely continuous, which means that there exists a function $f_{\nu^*}$ such that $F_{\nu^*}(x) = \int_0^x f_{\nu^*}(y)dy + F_{\nu^*}(0)$. By concavity of $F_{\nu^*}$, $f_{\nu^*}$ is monotonic and we may take it to be right-continuous. Then $f_{\nu^*}(x) = \int_{(x, b^*)} \psi(dz)$, where the measure $\psi$ is given by $\psi((z_1, z_2)) = f_{\nu^*}(z_1) - f_{\nu^*}(z_2)$ for any $z_1 < z_2$.

Let $\lambda^* = 0, \gamma^* = 1, \zeta^* = (1 - \theta)F_{\nu^*}(0)$ and $\eta^* = \psi$. Then $\int_{(0, \infty)} \eta^*(dz) = 1 - F_{\nu^*}(0)$. Since $\nu^* \in A^*_\mu$ we have that if $\eta^*$ places mass on every neighbourhood of $x$ then $P_{\nu^*}(x) = P_{\mu}(x)$.

Define $\Gamma$ on $[0, \infty)$ by $\Gamma(x) = \lambda^* x + \gamma^* - \int_{(x, \infty)} (z - x)\eta^*(dz)$. Then, for any $x > 0$,

$$\Gamma(x) = 1 - \int_{(x, \infty)} \psi(dz) \int_x^\infty dy = 1 - \int_x^\infty dy f_{\nu^*}(y) = F_{\nu^*}(x).$$

Observe that $\theta F_{\nu^*}(0) - \gamma^* + \zeta^* + \int_0^\infty \eta^*(dz) = 0$. Thus, by (5) and (4),

$$\int_{(0, \infty)} F_{\nu^*}(x)\nu(dx) + \theta F_{\nu^*}(0)F_{\nu}(0) \leq \lambda^* \mu + \gamma^* - \int_{(0, \infty)} P_{\mu}(z)\eta^*(dz) - \zeta^* F_{\mu}(0),$$

(7)
and by (6) and (4),
\[
\int_{(0,\infty)} F_{\nu^*}(x) \nu^*(dx) + \theta F_{\nu^*}(0) F_{\nu^*}(0) = \lambda^* \pi + \gamma^* - \int_{(0,\infty)} P_{\mu}(z) \eta^*(dz) - \xi^* F_{\mu}(0).
\]
Note \( \int_{(0,\infty)} P_{\mu}(z) \eta^*(dz) = \int_{(0,b_\pi]} P_{\nu^*}(z) \psi(z)dz = \int_{(0,b_\pi]} f_{\nu^*}(z) F_{\nu^*}(z)dz = (1 - F_{\nu^*}(0))^2/2 < 1 \) so that the right-hand side of (7) and (8) is well defined and positive. Furthermore, for any \( \nu \in \mathcal{A}_\mu^n \),
\[
\int_{(0,\infty)} F_{\nu^*}(x) \nu(dx) + \theta F_{\nu^*}(0) F_{\nu^*}(0) \leq \int_{(0,\infty)} F_{\nu^*}(x) \nu^*(dx) + \theta F_{\nu^*}(0) F_{\nu^*}(0).
\]
Hence, \((\nu^*, \nu^*)\) is a symmetric Nash equilibrium for the problem.

Remark 4.1. Substituting for the values of the optimal Lagrange multipliers we find
\[
V_{\nu^*, \nu^*}^1 = \int_{(0,\infty)} F_{\nu^*}(x) \nu^*(dx) + \theta F_{\nu^*}(0) F_{\nu^*}(0) = 1 - (1 - \theta) F_{\nu^*}(0) F_{\nu^*}(0) - \frac{1}{2} (1 - F_{\nu^*}(0)^2)
\]
\[
= \frac{1}{2} + \left( \theta - \frac{1}{2} \right) F_{\mu}(0)^2.
\]
Note that this is as expected, since for any law \( \pi \) with no atom on \((0, \infty)\) we have by symmetry that \( V_{\pi, \pi}^1 = (1 - \pi([0)^2]/2 + \theta \pi([0)^2)\).

5. Preliminaries

In the previous section we characterised the symmetric Nash equilibria. In this section we state and prove some auxiliary results which will be required for proofs of existence and uniqueness in later sections. The first result is of independent interest. Note that \( F_{\nu^*} \) is a concave function on \([0, \infty)\), but the case we will want in the following theorem is for convex distribution functions.

Proposition 5.1. Fix \( y \in (0, \infty) \). Let \( \mathcal{P}(y) \subseteq \mathcal{P} \) be the set of probability measures \( \pi \) on \( \mathbb{R}^+ \) with mean \( \pi = y \). For \( \pi \in \mathcal{P} \), recall that \( F_{\pi} \) is the distribution function of \( \pi \), and extend this definition to \((\infty, \infty]\) by \( F_{\pi}(\infty) = 1 \).

i. Let \( \mathcal{P}_{cx}(y) = \{ \pi \in \mathcal{P}(y) : F_{\pi} \text{ is convex on } (-\infty, b_\pi]\} \). Then, for \( \pi \in \mathcal{P}_{cx}(y) \), \( \pi([0)^0) = 0 \). Moreover:

(a) Suppose \( H \) is convex; then, \( \sup_{\pi \in \mathcal{P}_{cx}(y)} \int \pi(dz) H(z) = \int_0^y \frac{1}{2} H(v)dv \).

(b) Suppose \( H \) is concave; then, \( \sup_{\pi \in \mathcal{P}_{cx}(y)} \int \pi(dz) H(z) = H(y) \).

ii. Let \( \mathcal{P}_{cv}(y) = \{ \pi \in \mathcal{P}(y) : F_{\pi} \text{ is concave on } [0, \infty) \} \). Then, for \( \pi \in \mathcal{P}_{cv}(y) \), \( a_\pi = 0 \). Moreover:

(a) Suppose \( H \) is convex; then, \( \sup_{\pi \in \mathcal{P}_{cv}(y)} \int \pi(dz) H(z) = H(0) + y \lim_{\pi \uparrow x} \frac{H(x)}{x} \).

(b) Suppose \( H \) is concave; then, \( \sup_{\pi \in \mathcal{P}_{cv}(y)} \int \pi(dz) H(z) = \int_0^y \frac{1}{2} H(v)dv \).

The suprema in (i.a) and (ii.b) are attained by \( \pi \sim \mathcal{U}(0, 2y) \). The suprema in (i.a) is attained by \( \pi \sim \delta_y \). The suprema in (i.b) and (ii.a) are valid for all distributions on \( \mathbb{R}^+ \) with mean \( y \) and not just those with convex (or concave) distribution functions.

Remark 5.1. This result is stated for completeness; the result we will use and prove is (i.a).

Proof. Let \( U \) be a \( \mathcal{U}[0, 1] \) random variable.

Suppose \( \pi \in \mathcal{P}_{cx}(y) \) and let \( Y \) have law \( \pi \). It is obvious that \( F = F_{\pi} \), is strictly increasing on \((a_\pi, b_\pi]\), and \( F(a_\pi) = 0 \). Hence the inverse function \( G \triangleq F^{-1} \) exists on \([0, 1] \). Since \( G(U) \) is distributed as \( Y \), \( \mathbb{E}[H(Y)] = \mathbb{E}[H(G(U))] = \int_0^1 H(G(u))du \) and \( \int_0^1 G(u)du = \mathbb{E}[G(U)] = \mathbb{E}[Y] = y \).

It is clear that \( G \) is concave on \([0, 1] \) and \( G(0) = a_\pi \geq 0 \). Then, since \( \int_0^1 2yu du = \int_0^1 G(u)du \), then either \( G(u) = 2yu \) and \( Y \sim 2yU \), or there exists a unique \( u^* \in (0, 1) \) such that \( G(u^*) = 2yu^* \).
In the latter case, \(2yu \leq G(u) \leq 2yu^*\) for \(u \in [0, u^*]\) and \(2yu^* \leq G(u) \leq 2yu\) for \(u \in [u^*, 1]\). Then if \(D \triangleq E[H(Y)] - E[H(2yU)]\) we have

\[
D = \int_0^{u^*} (H(G(u)) - H(2yu)) \, du + \int_{u^*}^1 (H(G(u)) - H(2yu)) \, du.
\]

Let \(H^\prime\) denote the left derivative of the convex function \(H\). Then \(H(u_2) - H(u_1) \leq (u_2 - u_1)H^\prime(u_2)\) for any \(u_1\) and \(u_2\), and setting \(u_1 = 2yu\) and \(u_2 = G(u)\) and using the fact that \(H^\prime\) is increasing,

\[
D \leq \int_0^{u^*} (G(u) - 2yu)H^\prime(G(u))du + \int_{u^*}^1 (G(u) - 2yu)H^\prime(G(u))du \\
\leq H^\prime(2yu^*) \int_0^1 (G(u) - 2yu)du = 0.
\]

Thus, \(E[H(Y)] \leq E[H(2yU)] = \int_0^{2y} \frac{1}{2y} H(u)du\). Moreover, it is obvious that the bound is attained by \(Y \sim U[0, 2y]\).

\(\Box\)

**Proposition 5.2.** Suppose that \(H\) is such that \(H\) is twice differentiable and \(h = H^\prime\) is concave. Suppose that \(H(0) = 0, h(0) > 0, h'(0) \leq 0\) and \(h\) is not constant. Then, for \(\tilde{w} > 0\) such that \(H(\tilde{w}) = 0\), we have \(h(\tilde{w}) + h(0) \leq 0\), i.e. \(|h(\tilde{w})| \geq h(0)\).

**Proof.** Since \(h\) is not constant and \(h\) is concave, there is a solution \(\tilde{w}\) to \(h(\tilde{w}) = -h(0)\). Let \(\delta = -2h(0)/\tilde{w}\) be the slope of the line joining \((0, h(0))\) to \((\tilde{w}, -h(0))\). Then, on \((0, \tilde{w})\), \(h(w) \geq h(0) + \delta w\) and \(H(w) = \int_0^w h(x)dx \geq h(0)w + \delta w^2/2\), so that \(H(\tilde{w}) \geq 0\). Then, by concavity of \(H\) and since \(H(\tilde{w}) = 0, \tilde{w} \geq \tilde{w}\). Thus, \(h(\tilde{w}) \leq h(\tilde{w}) = -h(0)\) and the result follows.

\(\Box\)

**Proposition 5.3.** For any measure \(\nu \in A^*_\mu\), if \(C_\nu(x) = C_\mu(x)\) for some \(x > 0\), then \(C_\mu(\cdot)\) is differentiable at \(x\) and \(C^\prime_\nu(x) = C^\prime_\mu(x)\).

**Proof.** Suppose that \(\nu \in A^*_\mu\). Then, \(C_\nu\) is continuously differentiable on \((0, \infty)\) and \(C_\nu \geq C_\mu\). Since \(C_\nu(y) - C_\mu(y) \geq 0 = C_\nu(x) - C_\mu(x)\) for any \(y < x\) we deduce \(C^\prime_\nu(x-) - C^\prime_\mu(x-) \leq 0\). Similarly, we have \(C^\prime_\nu(x+) - C^\prime_\mu(x+) \geq 0\). Thus, \(C^\prime_\nu(x-) \leq C^\prime_\nu(x+) = C^\prime_\nu(x-) \leq C^\prime_\mu(x-)\). Conversely, convexity of \(C_\mu\) implies \(C^\prime_\mu(x-) \leq C^\prime_\mu(x+)\) and hence \(C^\prime_\mu(x-) = C^\prime_\mu(x+)\), and the results follow.
Proposition 5.4. Fix any measure $\nu \in \mathcal{A}_n^*$. Suppose that $C_\nu(x) = \phi(x)$ on some interval $J = [j_1, j_2]$, where $0 \leq j_1 < j_2 \leq \infty$ and where $\phi(\cdot)$ is a quadratic function defined on $(-\infty, \infty)$ with $\phi'' > 0$. Then $j_2 < \infty$ and $C_\nu(x) \leq \phi(x)$ on $[j_2, \infty)$.

Proof. Assume that $j_2 = \infty$. Then $C_\nu$ is quadratic on $[j_1, \infty)$ with strictly positive quadratic coefficient. This means that $C_\nu$ is not ultimately decreasing, which is a contradiction. Thus, $j_2 < \infty$. Since $C_\nu$ is continuous and concave on $(0, \infty)$ and since $\phi'$ is linear, it is clear that $C_\nu(x) \leq \phi(x)$ on $[j_2, \infty)$.

\[ \square \]

6. Existence of a Nash equilibrium

6.1. Atomic Initial Measure. We start with the case where the initial law $\mu$ is an atomic probability measure. We will construct a put function $Q(x)$ that satisfies certain conditions, and then define a measure $\nu$ via $\nu([-\infty, x]) = Q'(x)$. It will then follow that $\nu$ belongs to $\mathcal{A}_n^*$.

We state the theorem for the case of a measure $\chi$ as we will need the more general result in subsequent sections. In the case of $X_0 \sim \mu$ where $\mu$ an purely atomic probability measure with finitely many atoms the theorem gives existence of a symmetric Nash equilibrium.

Theorem 6.1. Suppose $\chi \in \mathcal{M}$ consists of finitely many atoms, that is $\chi = \sum_{j=1}^N p_j \delta_{\xi_j}$, where $0 \leq \xi_1 < \xi_2 < \cdots < \xi_N$ and $p_j > 0$ for all $1 \leq j \leq N$. Then $\mathcal{A}_n^*$ is non-empty.

Proof. If $\chi$ is a point mass at zero, then set $\pi(\{0\}) = \chi(\{0\})$. Then $\pi \in \mathcal{A}_n^*$ and the construction is complete.

Otherwise, set $Q_1(r, y) = y F_\chi(0) + r y^2 / 2$. Then there exists a unique value of $r$ ($r_1$ say) such that

\[ Q_1(r_1, y) = n_1 \forall y \geq 0 \quad \text{and} \quad Q_1(r_1, y) = P_\chi(y) \text{ for some } y > 0. \]

Let $y_1 = \max\{y > 0 : Q_1(r_1, y) = P_\chi(y)\}$. That $y_1$ is finite follows from Proposition 5.4. Then necessarily $P'_\chi(y_1)$ exists and $\frac{\partial}{\partial y} Q_1(r_1, y_1) = P'_\chi(y_1)$ (see the proof of Proposition 5.3). Note that $y_1 \notin \{\xi_1, \xi_2, \cdots, \xi_N\}$ since $P'_\chi$ has a kink at these points. Set $\xi_0 = 0$ and $\xi_N+1 = \infty$ and let $n_1$ be such that $\xi_{n_1} < y_1 < \xi_{n_1+1}$. If $n_1 = N$ (equivalently $P'_\chi(y_1) = \sum_{j=1}^N p_j = \chi(\mathbb{R}^+)$) then stop. Otherwise we proceed inductively.

Let $y_0 = 0$. Suppose we have found $0 < y_1 < y_2 < \cdots < y_k < \xi_N$ $(y_i \notin \{\xi_1, \xi_2, \cdots, \xi_N\} \forall 1 \leq i \leq k)$ and $Q_1$ on $[0, y_k]$ such that (i) $Q_1$ is continuously differentiable, (ii) $Q(y_i) = P_\chi(y_i)$ and $Q'(y_i) = P'_\chi(y_i)$ for any $1 \leq i < k$, (iii) $Q(y_k) = P_\chi(y_k)$ and $Q'(y_k) = P'_\chi(y_k)$ and (iv) $Q''$ is defined everywhere except at the points $0, y_1, y_2, \ldots, y_k$ and is piecewise constant and decreasing. In particular, $Q$ is quadratic on $\{(y_{i-1}, y_i)\}_{1 \leq i \leq k}$ with representation $Q(y) = Q_i(r_i, y)$ for $y \in [y_{i-1}, y_i]$ where

\[ Q_i(r_i, y) \triangleq P_\chi(y_{i-1}) + (y - y_{i-1}) P'_\chi(y_{i-1}) + \frac{1}{2} r_i(y - y_{i-1})^2, \]

and where $(r_i)_{1 \leq i \leq k}$ is a strictly decreasing sequence. Let $Q_{k+1}(r, y) = P_\chi(y_k) + (y - y_k)P'_\chi(y_k) + \frac{1}{2} r(y - y_k)^2$; then there exists a unique $r$ ($r_{k+1}$ say) such that

\[ Q_{k+1}(r_{k+1}, y) \geq P_\chi(y) \forall y \geq y_k \quad \text{and} \quad Q_{k+1}(r_{k+1}, y) = P_\chi(y) \text{ for some } y > y_k. \]

Since $Q_k(r_k, y) > P_\chi(y)$ for all $y > y_k$, it is clear that $0 < r_{k+1} < r_k$. Set $y_{k+1} = \max\{y > y_k : Q_{k+1}(r_{k+1}, y) = P_\chi(y)\}$. Then, $P'_\chi(y_{k+1})$ exists, $P'_\chi(y_{k+1}) = \frac{\partial}{\partial y} Q_{k+1}(r_{k+1}, y_{k+1})$, and $y_{k+1} \notin \{\xi_1, \xi_2, \cdots, \xi_N\}$ since $P_\chi$ has changes in slope at these points. Set $Q(y) = Q_{k+1}(r_{k+1}, y)$ on $[y_k, y_{k+1}]$.

We repeat the construction up to and including the index $k = T - 1$ for which $y_{k+1} > \xi_N$. Then $y_{T-1} < \xi_N < y_T$. Finally, we set $Q(y) = P_\chi(y) = \chi(\mathbb{R}^+ - y)$ for $y \geq y_T$.

For $y > 0$ let $\rho(y) = Q''(y)$. Then $\rho$ is defined almost everywhere and $\rho(y) = r_i$ on $(y_{i-1}, y_i)$ for $1 \leq i \leq T$ and $\rho(y) = 0$ on $(y_T, \infty)$. Furthermore, $\rho$ is decreasing and $\rho$ only decreases at points where $P_\chi(y) = Q(y)$. Let $\pi$ be the measure with an atom at $0$ of size $F_\chi(0)$ and density $\rho$ on $(0, \infty)$, and recall that $y_T > \xi_N$. Then,
We prove the second result. We have

\[ P(x) = \begin{cases} 0 & \text{if } x < 0, \\ \frac{x}{2y} & \text{if } 0 \leq x < 2y, \\ \frac{y}{x} & \text{if } x \geq 2y. \end{cases} \]

**Remark 6.1.** Fix any \( k \in \{1, 2, \ldots, T\} \). Let \( n_k \) be such that \( \xi_{n_k} < y_k < \xi_{n_k+1} \). Then, in the mapping \( \chi \mapsto \pi \), the atoms \( (\xi_1, \xi_2, \ldots, \xi_{n_k}) \) of \( \chi \) are mapped to \( [0, y_k] \), and \( \pi([0, y_k]) = P_\chi(y_k) = \sum_{j=1}^{n_k} \rho_j \). Moreover, \( \int_0^{y_k} y \pi(dy) = y_k \chi - P_\chi(y_k) = y_k \sum_{j=1}^{n_k} \rho_j - P_\chi(y_k) = y_k \sum_{j=1}^{n_k} \rho_j - \pi(y_k - \xi_j) = \sum_{j=1}^{n_k} \rho_j \xi_j. \)

**Example 6.1.** Suppose that \( \chi = p\delta_\xi \) with \( \xi > 0 \). Then \( P_\chi(y) = p(y - \xi)^+. \) Let \( Q_1(r, y) = ry^2/2. \) Then, \( Q_1(r, y) \geq P_\chi(y) \) if and only if \( r \geq p/\xi \) or \( r = r_1 \), and for \( r = r_1 \) we have \( Q_1(r_1, y) \geq P_\chi(y) \) with equality at \( y = 0 \) and \( y = y_1 = 2\xi. \) Then \( y_1 > \xi \) so that the construction ends and \( \pi = p\mathcal{U}(0, 2\xi). \)

The rest of this subsection is devoted to the proof of a useful proposition which will be used in the next subsection to find the optimal target law for a general initial measure.

For \( \varpi \in \mathcal{M} \) let \( X_{\varpi} \) be a random variable with law \( \varpi. \) Denote by \( \hat{X} \) the law of a random variable \( \hat{X}_{\varpi} \) where conditional on \( X_{\varpi} = x, \hat{X}_{\varpi} \) has law \( q_x = \mathcal{U}(0, 2x). \)

**Lemma 6.1.** For \( x \geq 0, \) and \( \varpi \in \mathcal{M}, \)

\[ F_{\varpi}(x) = F_{\varpi}(x/2) + \int_{(x/2, \infty)} \varpi(dy) \frac{x}{2y}, \quad P_{\varpi}(x) = \int_{x/2}^\infty P_{\varpi}(u) \frac{x^2}{2u^3} du. \]

**Proof.** We prove the second result. We have

\[
P_{\varpi}(x) = xF_{\varpi}(0) + \int_{(0, \infty)} \varpi(du) \int_0^{2u} \frac{(x-z)^+}{2u} dz = xF_{\varpi}(0) + \int_{(0, \infty)} (x-u) \varpi(du) + \int_{[\xi, \infty)} \frac{x^2}{4u} \varpi(du),
\]
and integrating by parts we find

\[ P_\varpi(x) = \int_{(0, \frac{1}{2})} F_\varpi(u)du + \int_{\frac{1}{2}}^\infty F_\varpi(u) \frac{x^2}{4u^2} du. \]

The result follows from a further integration by parts.

\[ \square \]

**Corollary 6.1.** If \( \pi \preceq_{cx} \varpi \), then \( \bar{\pi} \preceq_{cx} \bar{\varpi} \).

**Proposition 6.1.** Suppose \( \mu \in \mathcal{M} \) consists of finitely many atoms. Denote by \( \nu \) the element of \( \mathcal{A}_\mu^* \) which is constructed using the algorithm in Theorem 6.1. Suppose \( \varpi \) is any measure such that \( \varpi \) has mass \( \mu(\mathbb{R}^+) \), mean \( \bar{\mu} \) and \( \mu \preceq_{cx} \varpi \). Then, \( \nu \preceq_{cx} \bar{\varpi} \).

**Proof.** By Corollary 6.1 it is sufficient to prove the proposition in the case \( \varpi = \mu \).

Suppose \( \mu = \sum_{j=1}^N p_j \delta_{\xi_j} \), where \( 0 \leq \xi_1 < \xi_2 < \cdots < \xi_N \), \( p_i > 0 \) and \( \sum_{j=1}^N p_j \xi_j = \bar{\mu} \). By construction \( \bar{\mu} = \sum_{j=1}^N p_j \mu([0, 2\xi_j]) \) where \( \mu([0, 0]) \) can more simply be written as \( \delta_0 \).

For any \( m \in \{1, 2, \ldots, N\} \), define \( \mu^m = \sum_{j=1}^m p_j \delta_{\xi_j} \) and suppose \( \nu^m \) is the corresponding measure derived using the algorithm in Theorem 6.1.

If \( N = 1 \), then \( \mu = p_1 \delta_{\xi_1} \) and \( \nu = p_1 \mu([0, 2\xi_1]) = \bar{\mu} \) and the result holds.

Now suppose that \( N \geq 2 \). Then \( \nu = \nu^N = \sum_{m=1}^{N-1} (\nu^{m+1} - \nu^m) + \nu^1 \). Note that \( \mu^{m+1} - \mu^m \sim p_{m+1} \xi_{m+1} \) and hence \( \nu^{m+1} - \nu^m \) has mass \( p_{m+1} \) and mean \( \xi_{m+1} \). Provided we can show that \( (\nu^{m+1} - \nu^m) \) has a non-decreasing density, then it follows from Proposition 5.1 that \( (\nu^{m+1} - \nu^m) \preceq_{cx} \mu^{m+1} \mu([0, 2\xi_{m+1}]) \). Then, since convex order is preserved under addition, if \( (\nu^{m+1} - \nu^m) \) has a non-decreasing density for every \( m \) with \( 1 \leq m \leq N - 1 \), \( \nu \preceq_{cx} \sum_{m=1}^N p_m \mu([0, 2\xi_m]) = \bar{\mu} \).

We use a suffix \( m \) to label quantities constructed in Theorem 6.1, to show that they are constructed from measure \( \mu^m \). The idea of the proof is that in calculating \( \nu^m \) and \( \nu^{m+1} \) using the algorithm of Theorem 6.1, the early parts of the construction will be the same, and indeed \( \mu^m \) and \( \nu^{m+1} \) will differ only over the final non-zero element of \( \nu^{m+1} \).

Fix \( m \) with \( 2 \leq m \leq N \). Define \( \mathcal{B}^m \subseteq \{1, 2, \ldots, T^m\} \) by \( \mathcal{B}^m = \{ k : Q^m_k(r_k^m, y_k^m) \geq P_{\mu^{m+1}}(y_k) \text{ on } (y_{k-1}^m, \infty) \} \).

Case (a); \( \mathcal{B}^m = \{1, 2, \ldots, T^m\} \).

Then \( (Q^m_{j_1}(r_{j_1}^m, y_{j_1}^m))_{1 \leq j_1 \leq T^m} \) and \( (Q^m_{j_1}(r_{j_1}^m, y_{j_1}^m))_{1 \leq j_1 \leq T^m} \) are the same. Then also \( T^{m+1} = T^m + 1 \), \( y_{T^m}^m < y_{T^m+1}^m \) and the densities \( p^{m+1} \) and \( \rho^m \) satisfy that \( \rho^{m+1} = \rho^m \) on the interval \( (0, y_{T^m}^m) = y_{T^m+1}^m \), \( \rho^{m+1} \) is constant on \( (y_{T^m}^m, y_{T^m+1}^m) \) and \( \rho^m \) is zero on \( (y_{T^m}^m, y_{T^m+1}^m) \). In particular, \( \nu^{m+1} - \nu^m = p_{m+1} \mu([y_{T^m}^m, y_{T^m+1}^m]) \preceq_{cx} \mu([0, 2\xi_{m+1}]) \).

Case (b); \( \inf\{ k : k \notin \mathcal{B}^m \} = T^m \). Then, it must be that in the construction we have \( T^{m+1} = T^m + 1 \), \( \rho^{m+1} = \rho^m \) on the interval \( (0, y_{T^m+1}^m) = y_{T^m+1}^m \), \( \rho^{m+1} \) is constant (with value denoted by \( r_{T^m+1}^m \)) on \( (y_{T^m+1}^m, y_{T^m+1}^m) \), and \( \rho^m \) is constant and strictly less than \( r_{T^m+1}^m \) on \( (y_{T^m+1}^m, y_{T^m+1}^m) \). \( \rho^m \) is zero on \( (y_{T^m+1}^m, \infty) \). We want to argue that \( y_{T^m}^m < y_{T^m+1}^m \), which then implies that \( (\rho^{m+1} - \rho^m) \) is non-decreasing on \( (0, y_{T^m+1}^m) \). See Case (b) of Figure 3.

Note that in the construction of \( \nu^m \) the masses at points \( (\xi_{n_{T^m+1}^m}, \ldots, \xi_m) \) are embedded in the interval \( (y_{T^m+1}^m, y_{T^m+1}^m) \), and in the construction of \( \nu^{m+1} \) the masses at points \( (\xi_{n_{T^m+1}^m}, \ldots, \xi_{m+1}) \) are embedded in \( (y_{T^m+1}^m, y_{T^m+1}^m) \). Moreover, \( \nu^m \) has constant density over \( (y_{T^m+1}^m, y_{T^m+1}^m) \) and \( \nu^{m+1} \) has constant density over \( (y_{T^m+1}^m, y_{T^m+1}^m) \). Consider the means of \( \nu^m \) and \( \nu^{m+1} \); we have

\[
\frac{1}{2} (y_{T^m+1}^m + y_{T^m+1}^m) \sum_{j=n_{T^m+1}^m}^m p_j = \sum_{j=n_{T^m+1}^m}^m p_j \xi_j
\]
and

\[ \frac{1}{2} \left( y_{T}\text{\textasciitilde}^{m} + y_{T}\text{\textasciitilde}^{m+1} \right) \sum_{j=n_{T-1}^{m}+1}^{m+1} p_{j} = \sum_{j=n_{T-1}^{m}+1}^{m+1} p_{j} \xi_{j}. \]
Hence,

\[ y_T^m - y_T^{m-1} = \frac{2 \sum_{j=n_T^m-1+1}^{n_T^m} p_j (\xi_j - y_T^{m-1})}{\sum_{j=n_T^m-1+1}^{n_T^m} p_j} < \frac{2 \sum_{j=n_T^m-1+1}^{n_T^m} p_j (\xi_j - y_T^{m-1})}{\sum_{j=n_T^m-1+1}^{n_T^m} p_j} = y_{T+1}^m - y_T^m \]

and then \( y_T^m < y_{T+1}^m \).

**Case (c):** \( \inf \{ k : k \notin B^m \} < T_m \).

Define \( \hat{k} \triangleq \inf \{ k : k \notin B^m \} \). Then, it must be that in the construction we have \( T_m+1 = \hat{k} \), \( \rho^{m+1} = \rho^m \) on the interval \( (0, y_{k-1}^m = y_{k-1}^{m+1}) \). \( \rho^{m+1} \) is constant (with value denoted by \( r_{T_m+1}^m \) say) on \( (y_{k-1}^m, y_{T_m+1}^m) \), \( \rho^m \) is decreasing and strictly less than \( r_{T_m+1}^m \) on \( (y_{k-1}^m, y_T^m) \) and \( \rho^m \) is zero on \( (y_T^m, \infty) \). Similarly to Case (b) we want to argue that \( y_T^m < y_{T_m+1}^m \), which then implies that \( \rho^{m+1} - \rho^m \) is zero on \( (0, y_{k-1}^m) \) and non-decreasing on \( (y_{k-1}^m, y_{T_m+1}^m) \). See Case (c) of Figure 3.

We first construct a new measure \( \bar{\nu}^{m+1} \). Define \( \bar{Q}^{m+1} \) on \( [0, y_{T_m+1}^m] \) by \( \bar{Q}^{m+1}(y) = Q^m(y) = P_{\nu^m}(y) \). Let \( L^{m+1} \) be the line \( L^{m+1}(y) = \sum_{j=1}^{n_T^m} p_j (y - \xi_j) \) so that \( P_{\nu^{m+1}}(y) = \max \{ P_{\nu^m}(y), L^{m+1}(y) \} \) and for \( y \geq y_{T_m+1}^m \) define

\[ \bar{Q}^{m+1}_T(r, y) \triangleq P_{\nu^m}(y_{T_m+1}^m) + (y - y_{T_m+1}^m) P_{\nu^m}(y_{T_m+1}^m) + \frac{1}{2} r (y - y_{T_m+1}^m)^2. \]

Then, there exists a unique \( r \) (denoted by \( \hat{r}^{m+1} \) say) such that

\[ \bar{Q}^{m+1}_T(\hat{r}^{m+1}, y) \geq L_{m+1}(y) \quad \forall y \geq y_{T_m+1}^m \quad \text{and} \quad \bar{Q}^{m+1}_T(\hat{r}^{m+1}, y) = L_{m+1}(y) \text{ for some } y > y_{T_m+1}^m \]

Note that in the construction of \( \bar{\nu}^{m+1} \) (unlike in the construction of \( \nu^m \) or \( \nu^{m+1} \)) there is no requirement that \( \hat{r}^{m+1} \leq r_{T_m+1}^m \). Let \( \tilde{y}^{m+1} \) be the point such that \( \bar{Q}^{m+1}_T(\hat{r}^{m+1}, \tilde{y}^{m+1}) = L_{m+1}(\tilde{y}^{m+1}) \). Then \( \tilde{y}^{m+1} > y_{T_m+1}^m \).
General Initial Measure.

In the context of increasing density on its support. Hence $\nu \tilde{\nu}$ on $[0, y_{m}^{+1}]$, $\nu_{m}^{+1}(y) > \nu_{m}^{+1}(y)$ on $(y_{k-1}^{m+1}, y_{T+1}^{m+1})$ and $\nu_{m+1}$ is linear on $(y_{T+1}^{m+1}, \tilde{y}_{m+1}^{m+1})$. Since $\nu_{m+1}$ and $\nu_{m+1}$ have the same mean, the area between the horizontal line at $\tilde{y}_{m+1}^{m+1}(\mathbb{R})$ and $\nu_{m+1}$ must be equal to the area between the line at $\tilde{y}_{m+1}^{m+1}(\mathbb{R})$ and $\nu_{m+1}$. Hence $\tilde{y}_{m+1}^{m+1} < y_{m+1}^{m+1}$.

and $\frac{\partial}{\partial y} \tilde{Q}_{y}^{m+1}(\tilde{y}_{m+1}^{m+1}, \tilde{y}_{m+1}^{m+1}) = I_{m+1}(\tilde{y}_{m+1}^{m+1}) = \sum_{j=1}^{m+1} p_{j}$. Now let $\tilde{Q}^{m+1}(\cdot)$ be given by (see Figure 4)

\[ \tilde{Q}^{m+1}(y) = \nu_{m}^{+1}(y) \cdot (0, y_{m-1}^{m+1} \cap \tilde{Q}_{y}^{m+1}(\tilde{y}_{m+1}^{m+1}), \tilde{Q}_{y}^{m+1}(\tilde{y}_{m+1}^{m+1}), 1_{[y_{m+1}^{m+1}, \infty)}).
\]

Let $\tilde{y}_{m+1}^{m+1} = (\tilde{Q}_{y}^{m+1})^{\nu_{m}}$, and let $\tilde{\nu}_{m+1}$ be the measure with density $\tilde{y}_{m+1}^{m+1}$ on $[0, \infty)$ and an atom at 0 of size $F_{\mu}(0)$. Then, $P_{\nu_{m+1}}(y) = \tilde{Q}_{y}^{m+1}(y)$, and for $y \geq \tilde{y}_{m+1}^{m+1}$ we have $F_{\nu_{m+1}}(y) = I^{+1}_{m+1}(\tilde{y}_{m+1}^{m+1}) = \sum_{j=1}^{m+1} p_{j}$ and

\[ \int_{0}^{\infty} \tilde{y}_{m+1}^{m+1}(dy) = \tilde{y}_{m+1}^{m+1} F_{\nu_{m+1}}(\tilde{y}_{m+1}^{m+1}) - F_{\nu_{m+1}}(\tilde{y}_{m+1}^{m+1}) = \sum_{j=1}^{m+1} p_{j} \xi_{j}.
\]

In particular, $\tilde{\nu}_{m+1}$ has the same mass and first moment as $\nu_{m}$, and hence as $\nu_{m+1}$.

The point about the intermediate measure $\tilde{\nu}_{m+1}$ is that only in Case (b) the masses at points $(\xi_{m+1}, \ldots, \xi_{m})$ are embedded in the interval $(y_{T}^{m+1}, \tilde{y}_{m+1}^{m+1})$. In particular, $\nu_{m}$ has constant density over $(y_{m+1}^{m+1}, y_{T}^{m+1})$ and $\tilde{\nu}_{m+1}$ has constant density over $(y_{m+1}^{m+1}, \tilde{y}_{m+1}^{m+1})$. Then, exactly as in the proof of Case (b), considering the means of $\nu_{m}$ and $\tilde{\nu}_{m+1}$, we have $y_{m+1}^{m+1} < \tilde{y}_{m+1}^{m+1}$.

Next we wish to compare the supports of $\tilde{\nu}_{m+1}$ and $\nu_{m}^{m+1}$. Recall that $\tilde{\nu}_{m+1}(\mathbb{R}^+) = \nu_{m+1}(\mathbb{R}^+) = \sum_{j=1}^{m+1} p_{j}$ and $\tilde{\nu}_{m+1}$ and $\nu_{m}^{m+1}$ have the same mean. Moreover, $F_{\nu_{m+1}}(y) = F_{\nu_{m}}(y) = F_{\nu_{m+1}}(y)$ on $[0, y_{m+1}^{m+1}]$, and $F_{\nu_{m+1}}(y) > F_{\nu_{m}}(y) = F_{\nu_{m+1}}(y)$ on $(y_{m+1}^{m+1}, y_{T+1}^{m+1})$. This implies that $\tilde{y}_{m+1}^{m+1} < y_{T+1}^{m+1}$ since the means of $\tilde{\nu}_{m+1}$ and $\nu_{m}^{m+1}$ are the same (and hence the area between $F_{\nu_{m+1}}$ and the horizontal line at height $\nu_{m+1}(\mathbb{R}^+)$ is equal to the area between $F_{\nu_{m+1}}$ and the same horizontal line (see Figure 5). Hence $y_{T+1}^{m+1} < \tilde{y}_{m+1}^{m+1}$ and from this we find that $\nu_{m}^{m+1} - \nu_{m}$ is non-decreasing on $(0, y_{m}^{m+1})$, and $(\nu_{m}^{m+1} - \nu_{m})$ is a positive measure with increasing density on its support. Hence $\nu_{m}^{m+1} - \nu_{m} \leq \text{cr} p_{m+1}U[0, 2 \xi_{m+1}]$.

\[ \square \]

6.2. General Initial Measure. Our first result shows that if $\mu$ is a general measure in $\mathcal{M}$ then $\mathcal{A}_{\mu}^{*}$ is non-empty and hence a symmetric Nash equilibrium exists.

Theorem 6.2. Suppose $\mu \in \mathcal{M}$. Then $\mathcal{A}_{\mu}^{*}$ is non-empty.

Proof. Let $\{\mu_{n}\}_{n \geq 1}$ be a sequence of atomic probability measures with finite support such that $F_{\mu_{n}}(0) = F_{\mu}(0)$, $\mu_{n}$ has total mass $\mu(\mathbb{R}^+)$ and mean $\bar{\mu}$ and $\mu_{n} \uparrow \mu$ in convex order. Theorem 6.1 implies that for every $n$, there
exists $\nu_n \in A^*_\mu$. Define $D_n : [0, \infty) \to [0, \mu(\mathbb{R}^+)]$ by

$$D_n(x) = -C'_{\nu_n}(x) = \mu(\mathbb{R}^+) - F_{\nu_n}(x)$$

and let $b_n = \sup \{x : F_{\nu_n}(x) < \mu(\mathbb{R}^+)\}$. From the construction of $\nu_n$ in the proof of Theorem 6.1 it can be seen that $b_n$ is finite. Thus, $D_n$ is a decreasing, convex function with $D_n(0) = \mu(\mathbb{R}^+) - F_{\mu}(0)$, $D_n(b_n) = 0$, $D_n \geq 0$ and

$$\int_0^\infty D_n(x)dx = \int_0^{b_n} D_n(x)dx = \int_0^{b_n} x\nu_n(dx) = \overline{\nu}_n = \overline{\mu}_n = \overline{\mu}.$$ (10)

Helly’s Theorem (see Helly [1912] or Filipów et al. [2012, Theorem 1.3]) states that if $\{f_n\}_{n \geq 1}$ is a uniformly bounded sequence of monotone real-valued functions defined on $\mathbb{R}$ then there is a subsequence $\{f_{n_k}\}_{k \geq 1}$ which is pointwise convergent. Hence there exists a convergent subsequence of $\{D_n\}_{n \geq 1}$ moving to a subsequence as necessary, we may assume $\{D_n\}_{n \geq 1}$ is pointwise convergent. Let $D_\infty$ denote the limit function. Since $D_n$ is decreasing and convex for any $n \geq 1$, $D_\infty$ is also decreasing and convex. Moreover, by Fatou’s lemma and (10),

$$\int_0^\infty D_\infty(x)dx = \int_0^\infty \lim inf_{n \to \infty} D_n(x)dx \leq \lim inf_{n \to \infty} \int_0^\infty D_n(x)dx = \overline{\mu}.$$ 

In particular, since $D_\infty$ is decreasing and $\int_0^\infty D_\infty(x)dx < \infty$, we must have $\lim_{x \to \infty} D_\infty(x) = 0$.

Define a measure $\nu$ via $\nu((\infty, x]) = \mu(\mathbb{R}^+) - D_\infty(x)$. It is clear that $\nu(\mathbb{R}^+) = \mu(\mathbb{R}^+)$, $F_{\nu}(0) = F_{\mu}(0)$, $F_{\nu}(x)$ is continuous and $\nu$ has a non-increasing density $\rho$. Moreover $\nu_n$ converges in distribution to $\nu$.

We wish to show that $\nu$ has mean $\overline{\mu}$. Note that $\nu_n \preceq_{cx} \mu_n$ (Proposition 6.1 applied to $\mu_n$) and $\mu_n \preceq_{cx} \mu$ from which it follows that $\nu_n \preceq_{cx} \mu$. Hence elements $\nu_n$ in the sequence have a uniform bound (in the sense of convex order) and it follows that the sequence is tight and $\overline{\mu} = \lim_n \overline{\nu}_n = \nu$.

Since $\nu_n$ converges to $\nu$ in distribution it follows that $P_{\nu_n}(x)$ converges pointwise to $P_{\nu}$. Then since $\overline{\nu}_n \to \overline{\nu}$ it follows that $C_{\nu_n}(x)$ converges pointwise to $C_{\nu}$. Hence $C_{\nu}(x) = \lim_n C_{\nu_n}(x) \geq \lim_n C_{\nu_n}(x) = C_{\mu}(x)$.

Suppose $C_{\nu}(x) > C_{\mu}(x)$ on some interval $J$: then there exists $N_0 > 0$ such that $C_{\nu_n}(x) > C_{\mu}(x)$ on $J$ for all $n \geq N_0$. Then on $J$, $D_n(x)$ is a linear function. It is easy to see that $D_\infty(x) = \lim_{n \to \infty} D_n(x)$ is also linear on $J$, and thus $\nu$ has constant density on $J$. Thus, the density of $\nu$ only decreases when $C_{\nu}(x) = C_{\mu}(x)$. Hence $\nu \in A^*_\mu$.

7. Uniqueness of a Nash equilibrium

Section 6 shows that set $A^*_\mu$ is non-empty. In this section, we prove that $|A^*_\mu| \leq 1$, which thus completes the proof of Theorem 3.2.

**Proposition 7.1.** Suppose $\mu \in M$. Then $|A^*_\mu| \leq 1$.

**Proof.** Assume to the contrary that there exists two distinct elements $\nu$ and $\sigma$ in the set $A^*_\mu$. Recall that if $C_{\nu}(x) > C_{\mu}(x)$ then $C_{\nu}$ is locally a quadratic function near $x$, similarly for $C_{\sigma}$. Moreover, both $C_{\nu}'$ and $C_{\sigma}'$ are concave.

Observe that, for any $x \geq 0$, we cannot have $C_{\nu}(y) > C_{\sigma}(y)$ for all $y \in (x, \infty)$: if so then $C_{\nu}(y) > C_{\sigma}(y) \geq C_{\mu}(y)$ on $(x, \infty)$ and $C_{\nu}$ is quadratic on $(x, \infty)$, which is impossible by Proposition 5.4.

Let $x_0 > 0$ be such that $C_{\nu}(x_0) \neq C_{\sigma}(x_0)$. Without loss of generality, suppose that $C_{\nu}(x_0) > C_{\sigma}(x_0)$. Define $x_1 = \inf \{x > x_0 : C_{\nu}(x) = C_{\sigma}(x)\}$. By the observation above $x_1 < \infty$. Also note that $C_{\nu}(x) > C_{\sigma}(x)$ for all $x \in [x_0, x_1]$.

Suppose that $C_{\nu}(x_1) = C_{\sigma}(x_1) > C_{\mu}(x_1)$. Then, near $x_1$,

$$\begin{cases} C_{\nu}(x) = C_{\nu}(x_1) + \beta_{\nu,1}(x - x_1) + \gamma_{\nu,1}(x - x_1)^2, \\
C_{\sigma}(x) = C_{\sigma}(x_1) + \beta_{\sigma,1}(x - x_1) + \gamma_{\sigma,1}(x - x_1)^2, \end{cases}$$

where \(\beta_{\nu,1}, \gamma_{\nu,1}, \beta_{\sigma,1}, \gamma_{\sigma,1} \geq 0\). Hence $C_{\nu}(x) = C_{\sigma}(x)$ for all $x \in (x_0, x_1)$, which is impossible.

Hence $C_{\nu}(x) < C_{\sigma}(x)$ for all $x \in (x_0, x_1)$, which is impossible. Thus, $|A^*_\mu| \leq 1$.

\[\square\]
for some constants $\beta_{\nu, 1} < 0$, $\beta_{\sigma, 1} < 0$, $\gamma_{\nu, 1} > 0$ and $\gamma_{\sigma, 1} > 0$. Since $C_\nu(x) > C_\sigma(x)$ to the left of $x_1$, it is clear that $\beta_{\nu, 1} \leq \beta_{\sigma, 1}$.

Assume that $\beta_{\nu, 1} = \beta_{\sigma, 1}$. Then since $C_\nu(x) > C_\sigma(x)$ on $[x_0, x_1)$, we have $\gamma_{\nu, 1} > \gamma_{\sigma, 1}$. Let $\hat{x}_{\nu, 1} = \inf \{x > x_1 : C_\nu(x) = C_\nu(x_1)\}$, then $C_\nu(x) = C_\nu(x_1) + \beta_{\nu, 1}(x - x_1) + \gamma_{\nu, 1}(x - x_1)^2$ on $[x_1, \hat{x}_{\nu, 1})$ and $\hat{x}_{\nu, 1} < \infty$ by Proposition 5.4. Further, by Proposition 5.4, $C_\nu(x) \leq C_\nu(x_1) + \beta_{\nu, 1}(x - x_1) + \gamma_{\nu, 1}(x - x_1)^2$ on $(x_1, \infty)$. Thus, $C_\sigma(\hat{x}_{\nu, 1}) < C_\nu(\hat{x}_{\nu, 1}) = C_\nu(\hat{x}_{\nu, 1})$, which is a contradiction. Hence $\beta_{\nu, 1} < \beta_{\sigma, 1} < 0$. Now let $\hat{x}_{\sigma, 1} = \inf \{x > x_1 : C_\sigma(x) = C_\nu(x_1)\} < \infty$ (by Proposition 5.4). If $\gamma_{\nu, 1} \leq \gamma_{\sigma, 1}$ then $C_\nu(\hat{x}_{\sigma, 1} < C_\nu(\hat{x}_{\sigma, 1}) = C_\mu(\hat{x}_{\sigma, 1})$, which is a contradiction. So we conclude that $\beta_{\nu, 1} < \beta_{\sigma, 1} < 0$ and $\gamma_{\nu, 1} > \gamma_{\sigma, 1} > 0$. Set $\theta = \beta_{\nu, 1} - \beta_{\sigma, 1} > 0$.

Now we introduce a useful lemma.

**Lemma 7.1.** Suppose $\nu$ and $\sigma$ are distinct elements of $A^*_x$. Suppose $x_k$ is such that $C_\nu(x_k) = C_\sigma(x_k) > C_\mu(x_k)$. Then, $x_k > 0$ and in a neighbourhood of $x_k$ we can write

$$
\begin{align*}
C_\nu(x) &= C_\nu(x_k) + \beta_{\nu, 1}(x - x_k) + \gamma_{\nu, 1}(x - x_k)^2, \\
C_\sigma(x) &= C_\sigma(x_k) + \beta_{\sigma, 1}(x - x_k) + \gamma_{\sigma, 1}(x - x_k)^2.
\end{align*}
$$

Suppose $\beta_{\nu, k} \neq \beta_{\sigma, 1}$. Then there is an interval to the left of $x_k$ on which $C_\nu(x) - C_\sigma(x)$ is either strictly positive or strictly negative. Suppose that $C_\nu(x) - C_\sigma(x) > 0$ on some interval $(x_k - \epsilon, x_k)$: if not then interchange the roles of $\nu$ and $\sigma$. Then $\beta_{\nu, k} < \beta_{\sigma, k} < 0$ and $\gamma_{\nu, k} > \gamma_{\sigma, k} > 0$.

Define $x_{k+1} = \sup \{x < x_k : C_\nu(x) = C_\nu(x_k)\}$. Then, $x_{k+1} \in (0, x_k)$, $C_\nu(x_{k+1}) = C_\sigma(x_{k+1}) > C_\mu(x_{k+1})$ and hence in a neighbourhood of $x_{k+1}$ we can write

$$(11) \quad \begin{align*}
C_\nu(x) &= C_\nu(x_{k+1}) + \beta_{\nu, k+1}(x - x_{k+1}) + \gamma_{\nu, k+1}(x - x_{k+1})^2, \\
C_\sigma(x) &= C_\sigma(x_{k+1}) + \beta_{\sigma, k+1}(x - x_{k+1}) + \gamma_{\sigma, k+1}(x - x_{k+1})^2.
\end{align*}$$

Further, $\beta_{\sigma, k+1} < \beta_{\nu, k+1} < 0$, $\gamma_{\nu, k+1} > \gamma_{\sigma, k+1} > 0$ and $\beta_{\nu, k+1} - \beta_{\sigma, k+1} > \beta_{\sigma, k} - \beta_{\nu, k} > 0$.

**Proof.** Exactly as in the case $k = 1$ from the proof of Proposition 7.1, we conclude that $\beta_{\nu, k} < \beta_{\sigma, k} < 0$ and $\gamma_{\nu, k} > \gamma_{\sigma, k} > 0$.

Assume that $C_\nu(x_{k+1}) = C_\sigma(x_{k+1}) = C_\mu(x_{k+1})$. If $x_{k+1} > 0$ then $C_\nu(x_{k+1}) = C_\mu(x_{k+1})$. Otherwise, if $x_{k+1} > 0$ then $C_\nu(x_{k+1}) = C_\mu(x_{k+1})$ by Proposition 5.3. In either case, since $C_\nu(x) > C_\sigma(x) \geq C_\mu(x)$ on $(x_{k+1}, x_k)$, $C_\nu$ is linear on $[x_{k+1}, x_k]$. Then because $\beta_{\nu, k} = C_\nu(x_k) = C_\nu(x_{k+1})$ and $C_\sigma$ is concave, it is clear that $C_\nu(x) > C_\mu(x)$ on $(x_{k+1}, x_k)$. This contradicts the fact that $C_\nu(x) = C_\nu(x)$ at both $x_{k+1}$ and $x_k$. Hence $C_\nu(x_{k+1}) = C_\sigma(x_{k+1}) = C_\mu(x_{k+1})$.

It then follows that $x_{k+1} \in (0, x_k)$ and both $C_\nu$ and $C_\sigma$ are quadratic in a neighbourhood of $x_{k+1}$. In particular, $C_\nu$ is quadratic on $(x_{k+1}, x_k)$ and $\gamma_{\nu, k} = \gamma_{\nu, k+1}$. Using a similar argument to that described in the case $k = 1$, we get that $\beta_{\sigma, k+1} < \beta_{\nu, k+1} < 0$ and $\gamma_{\sigma, k+1} > \gamma_{\nu, k+1} > 0$.

Denote by $\rho_\nu$ the density function of the measure $\nu$. Then $\rho_\nu$ is constant on $(x_{k+1}, x_k)$. In contrast, $\rho_\sigma$ is non-increasing, $\rho_\sigma(x_k) = 2\gamma_{\nu, k} < 2\gamma_{\sigma, k} = \rho_\sigma(x_{k+1})$ and $\rho_\sigma(x_{k+1}) = 2\gamma_{\sigma, k+1} > 2\gamma_{\nu, k+1} = \rho_\nu(x_{k+1})$. Set $y_{k+1} = \sup \{y < x_k : \rho_\nu(y) \geq \rho_\nu(y)\}$, then $y_{k+1} \in (x_{k+1}, x_k)$. Further, $R(x) \equiv C_\nu(x) - C_\sigma(x)$ defined on $[x_{k+1}, x_k]$ is zero at the endpoints, has non-decreasing second derivative and is concave on $[y_{k+1}, x_k]$ and strictly convex on $[y_{k+1}, x_k]$ (see Figure 6).

Let $z_k \in (x_{k+1}, y_{k+1})$ be the unique value such that $R(z_k) = R(y_{k+1})$. Then $R'(z_{k+1}) \geq R'(z_k) > 0$ and $R'(y_{k+1}) < R'(x_{k+1}) \leq 0$. Set $H(x) = R(y_{k+1} - x) - R(y_{k+1})$ on $[0, y_{k+1} - z_k]$. Then using Proposition 5.2, we obtain $R'(z_k) \geq |R'(y_{k+1})|$. Hence, $\beta_{\nu, k+1} - \beta_{\sigma, k+1} = R'(x_{k+1}) \geq R'(z_k) \geq |R'(y_{k+1})| = |R'(x_{k+1})| = \beta_{\sigma, k} - \beta_{\nu, k} > 0$.

\qed

Return to the proof of Proposition 7.1. Using Lemma 7.1, we construct a decreasing sequence of points $(x_k)_{k \geq 1}$ at which $C_\nu - C_\sigma$ changes sign. Moreover, $|C_\nu'(x_k) - C_\sigma'(x_k)| = |\beta_{\nu, k} - \beta_{\sigma, k}| \geq \theta$. Let $x_{\infty} = \lim_{k \to \infty} x_k$ then $x_{\infty} \geq 0$. Observe that $\lim_{k \to \infty} (\beta_{\nu, k} - \beta_{\sigma, k}) = C_\nu'(x_{\infty}) - C_\sigma'(x_{\infty})$ exists. However, $\limsup_{k \to \infty} (\beta_{\nu, k} - \beta_{\sigma, k}) \geq...
Proof of Theorem 2.1. Firstly we argue that for particular, there cannot be distinct elements \( \nu \)

Since \( \mu \) and \( \sigma \) are admissible, there exists a unique solution \( \nu \) such that \( R(\nu) = R(y) \).

Further, \( R'(x_k+1) \geq R'(x_k) \).

\( \vartheta > 0 \) and \( \lim\inf_{k \to \infty} (\beta_{\nu,k} - \beta_{\sigma,k}) \leq -\vartheta < 0 \), which is a contradiction. Hence, there cannot be distinct elements \( \nu \) and \( \sigma \) in set \( \mathcal{A}^*_{\nu} \).

The above is predicated on the assumption that \( C_{\nu}(x_1) = C_{\sigma}(x_1) > C_{\mu}(x_1) \). Now suppose \( C_{\nu}(x_1) = C_{\sigma}(x_1) = C_{\mu}(x_1) \). Recall that \( C_{\nu} > C_{\sigma} \) on an interval to the left of \( x_1 \). Let \( x_2 = \sup \{ x < x_1 : C_{\nu}(x) = C_{\sigma}(x) \} \). Then, \( x_2 \in [0,x_0) \) and \( C_{\nu}(x) > C_{\sigma}(x) \) on \( (x_2,x_1) \).

Assume that \( C_{\nu}(x_2) = C_{\sigma}(x_2) = C_{\mu}(x_2) \). Then, by Proposition 5.3, \( C_{\nu}'(x_1) = C_{\sigma}'(x_1) = C_{\mu}'(x_1) \) and \( C_{\nu}'(x_2) = C_{\sigma}'(x_2) = C_{\mu}'(x_2) \).

Since \( C_{\nu}' \) is linear and \( C_{\sigma}' \) is concave on \( (x_2,x_1) \), it follows that \( C_{\nu}'(x) \leq C_{\sigma}'(x) \) for all \( x \in [x_2,x_1] \), which is a contradiction. Hence \( C_{\nu}(x_2) = C_{\sigma}(x_2) > C_{\mu}(x_2) \).

Now starting the construction at \( x_2 \), rather than \( x_1 \), we are in the same case as discussed previously. In particular, there cannot be distinct elements \( \nu \) and \( \sigma \) in set \( \mathcal{A}^*_{\nu} \).

\( \square \)

Appendix A. Necessity of conditions for a symmetric Nash equilibrium

Proof of Theorem 2.1. Firstly we argue that for \( \nu \) to be a symmetric Nash equilibrium we must have that \( \gamma = \beta \). Suppose not. Then \( \gamma < \beta \).

Let \( \alpha \) be the unique solution of \( P_{\nu}(x) = x - \nu \). There are two cases: either \( P_{\nu}(\alpha) = \alpha < \beta \) or \( P_{\nu}(\alpha) = P_{\mu}(\alpha) \). We consider the second case first; the first case is degenerate and will be treated subsequently.

So suppose \( P_{\nu}(\alpha) = P_{\mu}(\alpha) \). Then \( P_{\nu}(x) \geq x - \nu > P_{\mu}(x) \) on \( (\alpha, \infty) \) and \( \epsilon := \inf_{x \geq \alpha} [P_{\nu}(x) - P_{\mu}(x)] > 0 \).

The aim is to construct an interval \( (\gamma, \beta) \) and to modify \( \nu \) by moving the mass of \( \nu \) in this interval to the right-hand endpoint, whilst preserving the admissibility property. Then the modified measure is preferred to \( \nu \) when playing against an agent with target law \( \nu \).

Consider \( Q(\cdot) \) defined on \( x \geq \alpha \) by \( Q(x) = P_{\nu}(x) - \epsilon \). Then \( Q \) is non-negative. Fix \( \beta > \alpha \) and define \( \gamma \) via

\[ \gamma = \arg \sup_{\beta < \beta} \left\{ \frac{Q(\beta) - P_{\nu}(\gamma)}{\beta - \gamma} \right\}, \quad \Gamma = \frac{Q(\beta) - P_{\nu}(\gamma)}{\beta - \gamma} \]

(Note \( \gamma \) may not be uniquely defined, but \( \Gamma \) is.) Then \( F_{\nu}(\gamma-) \leq \Gamma \leq F_{\nu}(\gamma) < F_{\nu}(\beta-) \).

Let\( P_{\sigma} \) be defined by

\[ P_{\sigma}(x) = \begin{cases} \begin{array}{ll} P_{\nu}(x), & 0 \leq x < \gamma; \\ P_{\nu}(\gamma) + (x - \gamma)\Gamma, & \gamma \leq x < \beta; \\ Q(x), & x \geq \beta. \end{array} \end{cases} \]
If \( \sigma \) is the measure associated with the put price function \( P_\sigma \) then \( \sigma \geq \nu \) in the sense of first order stochastic dominance, and \( P_\sigma \geq P_\mu \), so that \( \sigma \) is weakly admissible.

For any admissible strategy \( \pi \),

\[
V_{\sigma,\pi}^1 - V_{\nu,\pi}^1 = \int_0^\infty \pi(dx)\{[(1 - F_\sigma(x)) + \theta(F_\sigma(x) - F_\sigma(x^-))] - [(1 - F_\nu(x)) + \theta(F_\nu(x) - F_\nu(x^-))]\}
\]

\[
= \pi(\{\gamma\}) (1 - \theta)[F_\nu(\gamma) - \Gamma] + \int_{(\gamma, \beta)} \pi(dx)\{(1 - \theta)[F_\nu(x) - \Gamma] + \theta[F_\nu(x^-) - \Gamma]\}
\]

\[
\geq (1 - \theta)\left(\pi(\{\gamma\})[F_\nu(\gamma) - \Gamma] + \int_{(\gamma, \beta)} \pi(dx)[F_\nu(x) - \Gamma]\right)
\]

Then since \( \nu \) assigns positive mass to \( \{\gamma, \beta\} \) it follows that \( V_{\sigma,\pi}^1 - V_{\nu,\pi}^1 > 0 \) and \( (\nu, \nu) \) cannot be a symmetric Nash equilibrium.

Now consider the degenerate case \( P_\nu(\alpha) = \alpha - \sigma \). Then \( \nu \) has support on \([0, \alpha]\) and an atom at \( \alpha \) and \( \mu \) assigns positive mass to \((\alpha, \infty)\).

Define \( \sigma \) via the put price function \( P_\sigma \) where \( P_\sigma(x) = P_\nu(x) \) for \( x \leq \alpha \) and \( P_\sigma(x) = P_\mu(x) \) for \( x > \alpha \). Note that \( P_\nu \) and \( P_\mu \) are convex and \( P_\nu(\alpha-) = P_\nu(\alpha-1) \leq P_\mu(\alpha-) \leq P_\mu(\alpha+) = P_\nu(\alpha+) \) and hence \( P_\sigma \) is convex. Then also \( \sigma \) is admissible and

\[
V_{\sigma,\pi}^1 - V_{\nu,\pi}^1 = \pi(\{\alpha\}) (1 - \theta)[1 - F_\mu(\alpha)] + \int_{(\alpha, \infty)} \pi(dx)\{[1 - F_\mu(x)] + \theta[F_\mu(x) - F_\mu(x^-)]\}
\]

and \( V_{\sigma,\nu}^1 - V_{\nu,\nu}^1 > \nu(\{\alpha\})(1 - \theta)\mu((a, \infty)) > 0 \). We conclude in this case also that \( (\nu, \nu) \) cannot be a symmetric Nash equilibrium.

Secondly we show that for \( \nu \) to be a symmetric Nash equilibrium we must have that \( \nu \) has no atoms at points above zero. Assume that \( \nu \) is strongly admissible and that \( \nu \) places an atom of size \( p > 0 \) at \( z > 0 \). We aim to show that \( \nu \) cannot correspond to a symmetric Nash equilibrium by considering the impact of splitting the mass at \( z \) into a mass of size \( q \) at \( z - \epsilon_1 \) and a mass of size \( p - q \) at \( z + \epsilon_2 \) where \( q \ll p \) and \( \epsilon_1 \gg \epsilon_2 \), in such a way that the mean is preserved.

Let the measure \( \sigma \) be given by

\[
F_\sigma(x) = \begin{cases} 
F_\nu(x), & \text{if } x \in [0, z - \epsilon_1] \cup [z + \epsilon_2, \infty), \\
F_\nu(x) + q, & \text{if } x \in [z - \epsilon_1, z), \\
F_\nu(x) - (p - q), & \text{if } x \in [z, z + \epsilon_2), 
\end{cases}
\]

where \( \epsilon_2 \in \left(0, \frac{(1 - \theta)p}{1 + \theta p}\right) \), \( \epsilon_1 \in \left(\frac{(1 + \theta)p\epsilon_2}{1 - \theta p}, z\right) \) and \( q = \frac{\epsilon_2 p}{\epsilon_1 + \epsilon_2} \in (0, p) \). Observe that \( (z - \epsilon_1)q + (z + \epsilon_2)(p - q) = zp \), and hence \( F_\nu \) and \( F_\sigma \) have the same mean. Then \( C_\sigma(x) = C_\nu(x) \) if \( x \in [0, z - \epsilon_1] \cup [z + \epsilon_2, \infty) \), \( C_\sigma(x) = C_\nu(x) + \left(x - (z - \epsilon_1)q\right) \) if \( x \in [z - \epsilon_1, z) \), and \( C_\sigma(x) = C_\nu(x) + (z + \epsilon_2 - x)(p - q) \) if \( x \in [z, z + \epsilon_2) \). This implies that \( C_\sigma(x) \geq C_\nu(x) \geq C_\mu(x) \). Thus, \( \sigma \) is strongly admissible.

Suppose that Player 2 chooses law \( \nu \). Then

\[
V_{\sigma,\nu}^1 - V_{\nu,\nu}^1 = F_\nu((z - \epsilon_1)q + F_\nu((z + \epsilon_2)q) - F_\nu(z) - p - \theta p^2
\]

\[
+ \theta\nu((z - \epsilon_1)q + \theta\nu((z + \epsilon_2)q)(p - q) - F_\nu((z + \epsilon_2)q) - F_\nu(z) - p - \theta p^2\]

\[
= p \left\{ F_\nu((z + \epsilon_2)q) - F_\nu(z)\right\} + \frac{\epsilon_1 \epsilon_2}{\epsilon_1 + \epsilon_2} - \left[F_\nu((z - \epsilon_1)q) - F_\nu((z - \epsilon_1)q)\right].
\]
Since \( F_\nu((z + \epsilon_2) -) - F_\nu(z-) \geq p \) and \( 0 \leq F_\nu(z-) - F_\nu((z - \epsilon_1) -) \leq 1 \),

\[
V_{\sigma,\nu}^1 - V_{\nu,\nu}^1 \geq p \left[ \frac{\epsilon_1}{\epsilon_1 + \epsilon_2} - \frac{\epsilon_2}{\epsilon_1 + \epsilon_2} - \theta \right] = p \left[ \frac{\epsilon_1(1 - \theta)p - (1 + \theta)p\epsilon_2}{\epsilon_1 + \epsilon_2} \right] > 0,
\]

which contradicts the assumption that \((\nu, \nu)\) is a Nash equilibrium. Thus, \( F_\nu(x) \) is continuous on \((0, \infty)\).

Thirdly we consider the possibility of an atom at zero. Suppose \((\nu, \nu)\) is a symmetric Nash equilibrium and set \( p = F_\nu(0) \) and \( p_\mu = F_\mu(0) \). Since \( \nu \) must be strongly (and not merely weakly) admissible by the first part of the theorem, \( \mu \leq_{cx} \nu \) and we must have \( p \geq p_\mu \). Suppose that \( p > p_\mu \); we aim to derive a contradiction. Fix any \( q \) such that \( 0 < q < \min \{p\sqrt{1 - \theta}, 1 - p\} \). Since by the arguments above we must have that \( F_\nu \) is continuous on \((0, \infty)\), there exists \( \epsilon > 0 \) such that \( \nu((0, \epsilon)) = q \), and then \( F_\nu(\epsilon) = p + q \). For any \( \phi \in (0, 1) \), let measure \( \sigma_\phi \) be given by

\[
F_{\sigma_\phi}(x) = \begin{cases} 
(1 - \phi)F_\nu(x), & \text{if } x \in [0, \delta), \\
\phi(p + q) + (1 - \phi)F_\nu(x), & \text{if } x \in [\delta, \epsilon), \\
F_\nu(x), & \text{if } x \in [\epsilon, \infty),
\end{cases}
\]

where \( \delta = \int_0^\epsilon \nu(y)dy/(p + q) \). Then \( \sigma_\phi \) is a probability measure with the same mean as \( \nu \). It follows that

\[
V_{\sigma_\phi,\nu}^1 - V_{\nu,\nu}^1 \geq \phi \left\{ (p + q) - \theta p^2 - \int_0^\epsilon F_\nu(y)\nu(dy) \right\} \geq \phi \left\{ (p + q)p - \theta p^2 - (p + q)q \right\} = \phi \left\{ (1 - \theta)p^2 - q^2 \right\} > 0.
\]

Hence, if \( \sigma_\phi \) is strongly admissible then Player 1 would prefer strategy \( \sigma_\phi \) to \( \nu \).

Making \( q \) and \( \epsilon \) smaller if necessary, and using the fact that \( C'_\nu(0+) = p - 1 > p_\mu - 1 = C'_\mu(0+) \), we can insist that \( C_\nu(x) - C_\mu(x) > (p - p_\mu)x/2 \) for \( x \in (0, \epsilon) \). Observe that \( C_\nu(x) - C_\sigma_\phi(x) = 0 \) for \( x \geq \epsilon \). Moreover, for \( x \in [0, \epsilon) \), since \( F_\nu(x) - F_{\sigma_\phi}(x) \leq \phi F_\nu(\delta), C_\nu(x) - C_{\sigma_\phi}(x) \leq \phi F_\nu(\delta)x \). Then, if \( \phi \leq \frac{p - p_\mu}{2F_\nu(\delta)} \), we have

\[
C_{\sigma_\phi}(x) - C_\mu(x) = (C_\nu(x) - C_\mu(x)) - (C_\nu(x) - C_{\sigma_\phi}(x)) > \frac{1}{2}(p - p_\mu)x - \phi F_\nu(\delta)x \geq 0
\]

for all \( x \in (0, \epsilon) \), and thus \( \mu \leq_{cx} \sigma_\phi \). Hence \( \sigma_\phi \) is admissible for small enough \( \phi \) and \((\nu, \nu)\) cannot be a symmetric Nash equilibrium. It follows that \( p = p_\mu \) and \( F_\nu(0) = F_\mu(0) \).

\[\square\]

**Proof of Forward Implication of Theorem 3.1.** We have shown that if \( \nu \) is a symmetric Nash equilibrium then \( \nu \) must be strongly admissible with respect to \( \mu \). It remains to show, firstly that \( \nu \) must have a decreasing density, and secondly that the density can only decrease at points where the convex order constraint is binding.

Let \((\pi, \pi)\) be a candidate symmetric Nash equilibrium, and suppose \( \pi \) has the properties given in Theorem 2.1. Suppose that \( \pi \) is such that \( F_\pi \) is not concave on \((0, \infty)\). Then there exist \( a, b \) with \( 0 < a < b < \infty \) such that \( F_\pi(b) - F_\pi(a) > 0 \) and for \( x \in (a, b) \),

\[
F_\pi(x) < F_\pi(a) + \frac{x - a}{b - a} [F_\pi(b) - F_\pi(a)].
\]

Let \( \sigma \) be such that \( F_\pi(x) = F_\pi(x) \) for \( x \) outside \([a, b]\) and for \( x \in [a, b], F_\pi(x) = F_\pi(a) + \phi[F_\pi(b) - F_\pi(a)], \) where \( \phi \) is chosen so that the means of \( \sigma \) and \( \pi \) agree. Then \( \int_a^b (F_\pi(x) - F_\pi(a))dx = \int_a^b (F_\sigma(x) - F_\pi(a))dx = \]
measure such that $C_F A \{ \nu \} \leq F \nu \times \nu$ and therefore $\nu (\nu, \pi) \geq F \nu (\nu, \pi)$. Now suppose that $z < \nu$ and $v = F \nu (w) < F \nu (w) = 2 F \nu (z) - F \nu (z - \epsilon)$.

$$\phi [F \pi (b) - F \pi (a)] (b - a)$$

and it follows that $\phi < 1/2$. Then

$$V_{\sigma}^1 - V_{\pi}^1 = \int_{[a,b]} F \pi (x) [\sigma (dx) - \pi (dx)] = \int_{[a,b]} (F \pi (x) - F \pi (a)) [\sigma (dx) - \pi (dx)]$$

$$= (1 - \phi) (F \pi (b) - F \pi (a))^2 - \frac{(F \pi (x) - F \pi (a))^2}{2} \bigg|_{x=a}$$

$$= \left( \frac{1}{2} - \phi \right) (F \pi (b) - F \pi (a))^2 > 0,$$

and hence $(\pi, \pi)$ cannot be a symmetric Nash equilibrium.

Now suppose that $\nu$ is strongly admissible, has no atoms on $(0, \infty)$ and $F \nu$ is concave on $(0, \infty)$. Then the density $f \nu \equiv F \nu$ is decreasing. Without loss of generality we take $f \nu$ to be right-continuous. Suppose that $z$ is such that $f \nu (x) > f \nu (z)$ for all $x < z$ and that $C \nu (z) > C \mu (z)$. Then there exists $\epsilon \in (0, z)$ such that $C \nu (z - \epsilon) + 2 \epsilon C \nu (z - \epsilon) > C \mu (z + \epsilon)$ and $C \nu (z + \epsilon) - 2 \epsilon C \nu (z + \epsilon) > C \mu (z - \epsilon)$, and it follows that if $\sigma$ is any measure such that $C \sigma = C \nu$ outside $(z - \epsilon, z + \epsilon)$ then $C \sigma (x) > C \mu (x)$ on the interval $[z - \epsilon, z + \epsilon]$ and $\sigma$ is strongly admissible.

Given $z$ and $\epsilon$ as in the previous paragraph, let $A_+ = \int_{z}^{z+\epsilon} (F \nu (z+\epsilon) - F \nu (x)) dx$ and let $A_- (x) = \int_{x}^{F \nu (z)} (z - F \nu (u)) du$. Let $v$ solve $A_- (v) = A_+$ and set $w = F \nu^{-1} (v)$. Note that $A_- (F \nu (z - \epsilon)) \geq A_+$ by the concavity of $F \nu$. Then $w \geq z - \epsilon$ and $v \geq F \nu (0)$. Note further that $A_- (F \nu (z) - \{ F \nu (z+\epsilon) - F \nu (z) \}) < f \nu (z) \{ F \nu (z+\epsilon) - F \nu (z) \}/2 \leq A_+$ and therefore $v < 2 F \nu (z) - F \nu (z + \epsilon)$, see Figure 7.

Then by construction, $\int_{w}^{z+\epsilon} x v (dx) = \int_{w}^{z+\epsilon} \nu (dx)$, and if we define $\sigma$ by $F \sigma = F \nu$ outside $(w, z + \epsilon)$ and $F \sigma (x) = F \nu (w)$ for $w < x < z$ and $F \sigma (x) = F \nu (z + \epsilon)$ for $z \leq x < z + \epsilon$ we have that $\sigma$ has the same mean as $\nu$.

![Figure 7](image-url)
(In effect $\sigma$ replaces the mass of $\nu$ on $(w, z + \epsilon)$ with a point mass at $z$.) Then, by the remarks of the previous paragraph, $\sigma$ is strongly admissible with respect to $\mu$.

Finally,

$$V_{\sigma,\nu}^1 - V_{\nu,\nu}^1 = \int_{(w,z+\epsilon)} F_{\nu}(x) [\sigma(dx) - \nu(dx)]$$

$$= (F_{\nu}(z + \epsilon) - v)F_{\nu}(z) - \frac{F_{\nu}(z + \epsilon)^2 - v^2}{2}$$

$$= \frac{(F_{\nu}(z + \epsilon) - v)}{2} [2F_{\nu}(z) - v - F_{\nu}(z + \epsilon)] > 0$$

and hence $(\nu, \nu)$ cannot be a symmetric Nash equilibrium.

□

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