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# A Geometric Approach to Mechanism Design

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We apply basic techniques from convex analysis to develop a simple and unified treatment of optimal mechanism design for linear one-dimensional social choice environments. Our approach clarifies the literature on reduced form implementation and generalizes it to social choice settings. We incorporate incentive compatibility using well-known results from majorization theory and prove equivalence of Bayesian and dominant-strategy implementation. We then derive the optimal mechanism for *any* linear objective of agent values using standard micro-economic tools such as Hotelling’s lemma. Finally, we extend our results to concave objectives of agent values and payments by providing a fixed-point equation characterizing the optimal mechanism.

*Key words*: mechanism design, optimal mechanisms, convex analysis, support function, majorization, ironing, Hotelling’s lemma, reduced-form implementation, BIC-DIC equivalence

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## 1. Introduction

Mechanism design concerns the creation of optimal social systems by maximizing well-defined objectives taking into account resource constraints and participants’ incentives and hidden information. It provides a framework to address questions like “what auction format assigns goods most efficiently or yields the highest seller revenue” and “when should a public project such as building a highway be undertaken?” The difficulty in answering these questions stems from the fact that the designer typically does not possess detailed information about bidders’ valuations for the goods or about voters’ preferences for the public project. A well-designed mechanism should therefore elicit participants’ private information in a truthful, or incentive compatible, manner and implement the corresponding social optimum accordingly.

The constraints imposed by incentive compatibility are generally treated separately from other more basic constraints, such as resource constraints. As a result, mechanism design theory appears to have developed differently from classical approaches to consumer and producer choice theory despite some obvious parallels. For example, in producer choice theory, the firm also maximizes a well-defined objective: its profit. Given a feasible production set it is a standard, albeit potentially tedious, exercise

to compute the firm’s profit as a function of input and output prices. In turn, given a firm’s profit function its production set can be uniquely recovered, and the firm’s optimal production plan follows by taking the gradient of the profit function – *Hotelling’s lemma*.

In this paper, we draw a parallel with classical choice theory to provide a novel geometric approach to mechanism design for *any* linear one-dimensional social choice problems. We observe that the set of feasible allocations – the analogue of the production set – consists of a collection of simplices for which the *support function* – the analogue of the profit function – can be obtained “off the shelf” without doing any calculations. The relationship between the support function and the corresponding convex set then define inequalities that clarify the origin of the “Maskin-Riley-Matthews” conditions for reduced-form auctions (Maskin and Riley, 1984 [28]; Matthews, 1984 [29]) and allow us to extend reduced-form implementation to social choice settings.

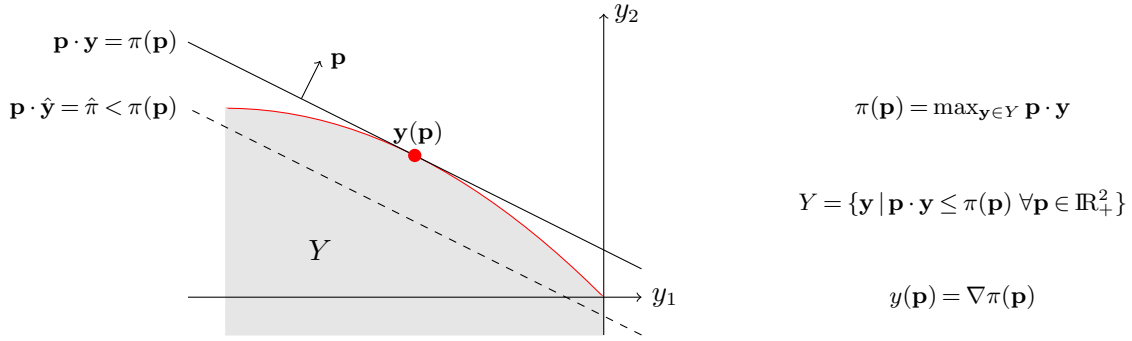
As noted above, a distinguishing role in mechanism design is played by incentive compatibility, which we incorporate using their geometric characterization. Borrowing results from majorization theory due to Hardy, Littlewood, and Pólya (1929) [15] we elucidate the “ironing” procedure introduced by Mussa and Rosen (1978) [31] and Myerson (1981) [33]. We show that the support function for the set of feasible and incentive compatible allocations is simply the support function for the feasible set, evaluated at ironed weights. Furthermore, we establish the equivalence of Bayesian and dominant-strategy implementation (Manelli and Vincent, 2010 [24]; Gershkov et al., 2013 [13]) by showing that the same support function results whether Bayesian or dominant-strategy incentive constraints are imposed.

To summarize, the support function for the set of feasible and incentive compatible allocations for *any* linear one-dimensional social choice problems – not just auctions – can be obtained using off-the-shelf results from convex analysis and majorization theory that predate any research in mechanism design. Moreover, the support function is piece-wise linear and it is straightforward to take the gradient and apply Hotelling’s lemma to derive the optimal mechanism for *any* linear objective. Finally, we adapt our approach to include general concave objectives that depend on both allocations and transfers and provide a simple fixed-point condition characterizing the optimal mechanism.

This paper is organized as follows. Section 2 illustrates our approach with a simple auction example. Section 3 considers linear one-dimensional social choice problems: we derive the support function for the set of feasible allocations (Section 3.1), discuss reduced form implementation (Section 3.2), incorporate incentive compatibility (Section 3.3), establish equivalence of Bayesian and dominant strategy implementation (Section 3.4), and derive the optimal mechanism for arbitrary linear objectives (Section 3.5). Section 4 considers concave objectives and incorporates transfers into the support function. We discuss related literature and possible extensions in the conclusions (Section 5). The Appendix contains all proofs.

## 2. A Simple Example

Consider a standard producer choice problem  $\pi(\mathbf{p}) = \max_{\mathbf{y} \in Y} \mathbf{p} \cdot \mathbf{y}$  where the production set is characterized by a square-root production technology  $Y = \{(-y_1, y_2) \in \mathbb{R}_+^2 \mid y_2 \leq \sqrt{-y_1}\}$ , see Figure 1. It is readily verified that the optimal levels of inputs and outputs are given by  $y_2(\mathbf{p}) = \sqrt{-y_1(\mathbf{p})} = \frac{p_2}{2p_1}$ , resulting in profits  $\pi(\mathbf{p}) = \frac{p_2^2}{4p_1}$ . Given a convex production set the profit function is uniquely determined and, in turn, the profit function uniquely determines the production set  $Y = \{\mathbf{y} \mid \mathbf{p} \cdot \mathbf{y} \leq \pi(\mathbf{p}) \forall \mathbf{p} \in \mathbb{R}_+^2\}$ . Moreover, it determines the optimal input and output via *Hotelling’s lemma*,  $y(\mathbf{p}) = \nabla \pi(\mathbf{p})$ . The main



**Figure 1.** A profit-maximization example to illustrate (i) the relationship between production set  $Y = \{(-y_1, y_2) \in \mathbb{R}_+^2 \mid y_2 \leq \sqrt{-y_1}\}$  and its profit function  $\pi(\mathbf{p}) = \frac{p_2^2}{4p_1}$ , and (ii) Hotelling's lemma.

innovation of this paper is to apply these well-known micro-economics tools to problems in mechanism design, e.g. to derive optimal mechanisms as the gradient of the support function.

To this end, we define the *support function*  $S^C : \mathbb{R}^n \rightarrow \mathbb{R} \cup \{+\infty\}$  of a closed convex set  $C \subset \mathbb{R}^n$  as

$$S^C(\mathbf{w}) = \sup\{\mathbf{v} \cdot \mathbf{w} \mid \mathbf{v} \in C\},$$

with  $\mathbf{v} \cdot \mathbf{w} = \sum_{j=1}^n v_j w_j$  the usual inner product. From the support function one can recover the associated convex set,  $C = \{\mathbf{v} \in \mathbb{R}^n \mid \mathbf{v} \cdot \mathbf{w} \leq S^C(\mathbf{w}) \forall \mathbf{w} \in \mathbb{R}^n\}$ , and the solution to the maximization problem  $\sup_{\mathbf{v} \in C} \boldsymbol{\alpha} \cdot \mathbf{v}$  as  $\mathbf{v}(\boldsymbol{\alpha}) = \nabla S^C(\boldsymbol{\alpha})$ .<sup>1</sup> Of course, this approach would be unattractive if computing the support function was tedious or intractable. For a broad class of mechanism design problems, however, the underlying feasible set is simply a product of probability simplices for which the support function is well known.

To illustrate, consider a single-unit auction with two ex ante symmetric bidders and two equally likely types,  $x_l < x_h$ . Assuming a symmetric allocation rule, the probability that a bidder obtains the object is summarized by  $\mathbf{q} = (q_{ll}, q_{lh}, q_{hl}, q_{hh})$  where the first (second) subscript denotes the bidder's (rival's) type. The symmetry and feasibility constraints are presented in the first line of Table 1 while the second line shows the associated support functions. The set of feasible allocations is the Cartesian product of the three sets presented in the first line for which the support function is simply the sum of individual support functions

$$S^{\mathbf{q}}(\mathbf{w}) = \frac{1}{2} \max(0, w_{ll}) + \max(0, w_{lh}, w_{hl}) + \frac{1}{2} \max(0, w_{hh}) \quad (1)$$

A bidder's interim (or expected) allocations  $\mathbf{Q} = (Q_l, Q_h)$  are linear transformations of the ex post allocations:  $Q_l = \frac{1}{2}(q_{ll} + q_{lh})$  and  $Q_h = \frac{1}{2}(q_{hl} + q_{hh})$ , which we summarize as  $\mathbf{Q} = L\mathbf{q}$  with  $L$  being the relevant two-by-four matrix. A basic property of the inner product is that  $\mathbf{Q} \cdot \mathbf{W} = L\mathbf{q} \cdot \mathbf{W} = \mathbf{q} \cdot L^T \mathbf{W}$ , from which it follows that the support function for the set of feasible interim allocations is

$$S^{\mathbf{Q}}(\mathbf{W}) = S^{\mathbf{q}}(L^T \mathbf{W}) = \frac{1}{4} \max(0, W_l) + \frac{1}{2} \max(0, W_l, W_h) + \frac{1}{4} \max(0, W_h) \quad (2)$$

<sup>1</sup> While the support function may not be everywhere differentiable, it is subdifferentiable as it is a convex function that is the supremum of linear functions. At points of non-differentiability, any  $\mathbf{v} \in \nabla S^C(\boldsymbol{\alpha})$ , where  $\nabla S^C$  denotes the subdifferential, is a solution (see Rockafellar, 1997 [34]).

$$\begin{array}{l} \text{Feasibility constraints} \\ \text{Support function} \end{array} \left\| \begin{array}{l} 0 \leq q_{ll} \leq \frac{1}{2} \\ \frac{1}{2} \max(0, w_{ll}) \end{array} \right\| \left\| \begin{array}{l} 0 \leq q_{lh}, q_{hl}, q_{lh} + q_{hl} \leq 1 \\ \max(0, w_{lh}, w_{hl}) \end{array} \right\| \left\| \begin{array}{l} 0 \leq q_{hh} \leq \frac{1}{2} \\ \frac{1}{2} \max(0, w_{hh}) \end{array} \right.$$

**Table 1.** Feasibility constraints and associated support functions for a simple example.

The set of feasible interim allocations follows from  $\mathbf{Q} \cdot \mathbf{W} \leq S^{\mathbf{Q}}(\mathbf{W})$  for all  $\mathbf{W} \in \mathbb{R}^2$  and is shown in the left panel of Figure 2.<sup>2</sup>

Of course, not all feasible allocations satisfy Bayesian incentive compatibility (BIC), which requires that interim allocations are monotonic in types:  $Q_h \geq Q_l$  (see Myerson, 1981 [33]). Graphically, the set of BIC allocations can be seen as the intersection of the set of feasible interim allocations and the “above the 45-degree line” half-space (see the middle panel of Figure 2). This half-space can be written as  $(1, -1) \cdot \mathbf{Q} \leq 0$  with associated support function

$$S^H(\mathbf{W}) = \begin{cases} 0 & \text{if } \mathbf{W} = \Lambda(1, -1) \\ \infty & \text{if } \mathbf{W} \neq \Lambda(1, -1) \end{cases}$$

for any  $\Lambda \geq 0$ . The support function for the intersection follows from the convolution

$$S^{BIC}(\mathbf{W}) = \inf_{\mathbf{w}_1 + \mathbf{w}_2 = \mathbf{w}} S^{\mathbf{Q}}(\mathbf{w}_1) + S^H(\mathbf{w}_2) = \inf_{\Lambda \geq 0} S^{\mathbf{Q}}(\mathbf{W} - \Lambda(1, -1))$$

The solution to this minimization problem is  $\Lambda = \frac{1}{2} \max(0, W_l - W_h)$  so that  $S^{BIC}(\mathbf{W}) = S^{\mathbf{Q}}(\mathbf{W}_+)$  where  $\mathbf{W}_+$  denote “ironed” weights

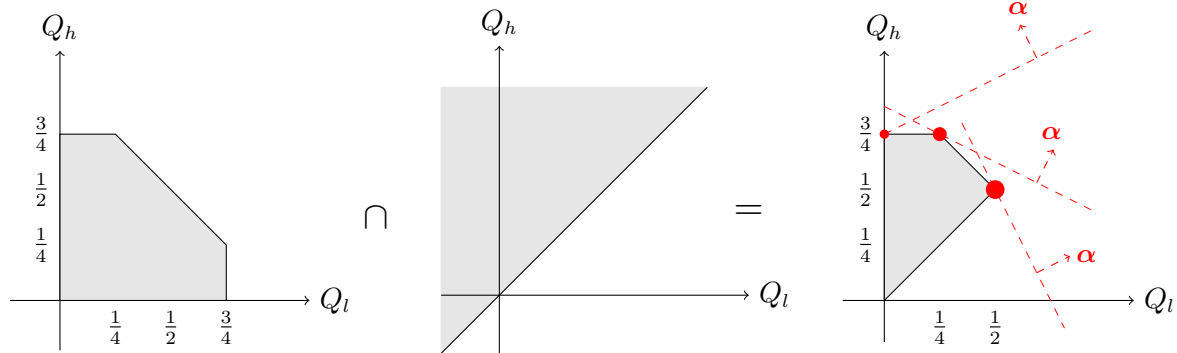
$$\mathbf{W}_+ = \begin{cases} (W_l, W_h) & \text{if } W_l \leq W_h \\ \frac{1}{2}(W_l + W_h, W_l + W_h) & \text{if } W_l > W_h \end{cases} \quad (3)$$

Now consider maximization of a linear objective  $\alpha \cdot \mathbf{Q} = \alpha_l Q_l + \alpha_h Q_h$  over the set of feasible BIC allocations. For example, revenue maximization corresponds to  $\alpha = (2x_l - x_h, x_h)$ , see equation (12) in Section 3.5, while welfare maximization correspond to  $\alpha = (x_l, x_h)$ . In the revenue-maximization case, either  $\alpha_l < 0 < \alpha_h$  which yields  $\nabla S^{BIC}(\alpha) = (0, \frac{3}{4})$ , or  $0 < \alpha_l < \alpha_h$  which yields  $\nabla S^{BIC}(\alpha) = (\frac{1}{4}, \frac{3}{4})$  as indicated by the small and medium-sized dots in Figure 2.<sup>3</sup> These optimal interim allocations follow by using the symmetric allocation rules  $\mathbf{q} = (0, 0, 1, \frac{1}{2})$  and  $\mathbf{q} = (\frac{1}{2}, 0, 1, \frac{1}{2})$  respectively. The intuition is that the low type is screened out (e.g. by using a reserve price) when the marginal revenue  $2x_l - x_h$  is negative while the allocation rule is efficient when this marginal revenue is positive.

The efficient allocation rule is also optimal for welfare maximization, as this is another example when  $0 < \alpha_l < \alpha_h$ . A new solution arises when  $0 < \alpha_h < \alpha_l$ , e.g. when the social objective places higher weight on the low type possibly because of redistributive or fairness concerns. The support function in (2) reduces to  $\frac{1}{2}W_l + \frac{1}{2}W_h$  when  $0 < W_h < W_l$ , since the weights are replaced by their ironed versions, see (3). Hence,  $\nabla S^{BIC}(\alpha) = (\frac{1}{2}, \frac{1}{2})$ , a solution shown by the large dot in Figure 2. This solution is implemented by the random allocation rule  $\mathbf{q} = (\frac{1}{2}, \frac{1}{2}, \frac{1}{2}, \frac{1}{2})$ .

<sup>2</sup> One can easily explain the maximum expected probability of winning  $\frac{3}{4}$ . Symmetry implies that a bidder wins with probability  $\frac{1}{2}$  when facing a rival of the same type, which occurs with probability  $\frac{1}{2}$ . Hence, the maximum expected probability of winning is  $\frac{1}{2} \cdot \frac{1}{2} + \frac{1}{2} \cdot 1 = \frac{3}{4}$ .

<sup>3</sup> Note that  $S^{BIC}(\mathbf{W})$  reduces to  $\frac{3}{4}W_h$  when  $W_l < 0 < W_h$  and to  $\frac{1}{4}W_l + \frac{3}{4}W_h$  when  $0 < W_l < W_h$ .



**Figure 2.** The set of feasible Bayesian incentive compatible interim allocations (right) can be seen as the intersection of the feasible set (left) with the “above the 45-degree line” half-space (middle). On the right, the dashed lines are level-surfaces for the linear objective  $\alpha \cdot \mathbf{Q}$ . The dots indicate optimal allocations when  $\alpha_l < 0 < \alpha_h$  (small),  $0 < \alpha_l < \alpha_h$  (medium),  $0 < \alpha_h < \alpha_l$  (large).

Overall, the above example illustrates how the support function for the set of feasible and BIC interim allocations can be derived using basic techniques of convex analysis. The optimal mechanisms for any linear objectives then follow from Hotelling’s lemma. We generalize these insights to social choice environments and provide more novel results in the next section.

### 3. Social Choice Implementation

We consider a linear one-dimensional social choice environment with independent private values and quasi-linear utilities. There is a finite set of agents  $\mathcal{I} = \{1, 2, \dots, I\}$  and a finite set of social alternatives  $\mathcal{K} = \{1, 2, \dots, K\}$ . When alternative  $k$  is selected, agent  $i$ ’s payoff equals  $a_k^i x^i$  where  $a_k^i \in \mathbb{R}$  is common knowledge and  $x^i \in \mathbb{R}_+$  is agent  $i$ ’s privately-known type, which is distributed according to a commonly known probability distribution  $f^i(x^i)$  with discrete support  $X^i = \{x_1^i, \dots, x_{N_i}^i\}$ , where  $x_j^i < x_{j+1}^i$  for  $j = 1, \dots, N_i - 1$ .<sup>4</sup> Let  $\mathbf{x} = (x^1, \dots, x^I)$  denote the profile of agents’ types with  $\mathbf{x} \in X = \prod_{i \in \mathcal{I}} X^i$ . Without loss of generality we restrict attention to direct mechanisms characterized by  $K + I$  functions,  $\{q_k(\mathbf{x})\}_{k \in \mathcal{K}}$  and  $\{t^i(\mathbf{x})\}_{i \in \mathcal{I}}$ , where  $q_k(\mathbf{x})$  is the probability that alternative  $k$  is selected and  $t^i(\mathbf{x}) \in \mathbb{R}$  is agent  $i$ ’s payment. We define agent  $i$ ’s value as  $v^i(\mathbf{x}) \equiv \sum_{k \in \mathcal{K}} a_k^i q_k(\mathbf{x})$  so that agent  $i$ ’s utility from truthful reporting, assuming others report truthfully as well, is  $u^i(\mathbf{x}) = x^i v^i(\mathbf{x}) - t^i(\mathbf{x})$ . We use capital letters to indicate interim variables:  $V^i(x^i) = E_{x^{-i}}(v^i(\mathbf{x}))$ ,  $T^i(x^i) = E_{x^{-i}}(t^i(\mathbf{x}))$ , and  $U^i(x^i) = x^i V^i(x^i) - T^i(x^i)$  denote agent  $i$ ’s interim value, interim payment, and interim utility respectively.

#### 3.1. Feasibility

The probabilities with which the alternatives occur satisfy the usual feasibility conditions: they should be non-negative,  $q_k(\mathbf{x}) \geq 0$  for  $k \in \mathcal{K}$ , and sum up to one,  $\sum_{k \in \mathcal{K}} q_k(\mathbf{x}) = 1$ . In other words, for each

<sup>4</sup> This formulation includes many important applications, e.g. single or multi-unit auctions, public goods provision, bilateral trade, etc.

type profile,  $\mathbf{q}(\mathbf{x}) = \{q_k(\mathbf{x})\}_{k \in \mathcal{K}}$  defines a  $K$ -dimensional simplex with support function  $S^{\mathbf{q}(\mathbf{x})}(\mathbf{w}(\mathbf{x})) = \max_{k \in \mathcal{K}} w_k(\mathbf{x})$  and  $\mathbf{w}(\mathbf{x}) \in \mathbb{R}^K$ . Furthermore, the support function for the Cartesian product of sets equals the sum of support functions (Rockafellar, 1997 [34]) so the support function for the set of all feasible allocations  $\mathbf{q} = \{\mathbf{q}(\mathbf{x})\}_{\mathbf{x} \in X}$  is given by

$$S^{\mathbf{q}}(\mathbf{w}) = \sum_{\mathbf{x} \in X} \max_{k \in \mathcal{K}} w_k(\mathbf{x})$$

where  $\mathbf{w} = \{\mathbf{w}(\mathbf{x})\}_{\mathbf{x} \in X} \in \mathbb{R}^{K|X|}$ .

For vector  $\mathbf{q} \in \mathbb{R}^{K|X|}$  and any linear transformation  $A$ , we have  $A\mathbf{q} \cdot \mathbf{w} = \mathbf{q} \cdot A^T \mathbf{w}$  where  $A^T$  is the transpose of  $A$ . Hence, for set of probability simplicies  $C$ , we have  $S^{AC}(\mathbf{w}) = S^C(A^T \mathbf{w})$ . Therefore, the support function for the set of feasible values  $v^i(\mathbf{x}) = \sum_{k \in \mathcal{K}} a_k^i q_k(\mathbf{x})$  equals

$$S^{\mathbf{v}}(\tilde{\mathbf{w}}) = \sum_{\mathbf{x} \in X} \max_{k \in \mathcal{K}} \sum_{i \in \mathcal{I}} a_k^i \tilde{w}^i(\mathbf{x}) \quad (4)$$

where  $\tilde{\mathbf{w}} = \{\tilde{w}^i(\mathbf{x})\}_{\mathbf{x} \in X, i \in \mathcal{I}} \in \mathbb{R}^{\sum_i |X^i|}$ . Moreover, interim values are a linear transformation of values:  $V^i(x^i) = \sum_{x^{-i}} f^{-i}(x^{-i}) v^i(\mathbf{x})$  where  $f^{-i}(x^{-i}) = \prod_{j \neq i} f^j(x^j)$ . To arrive at expressions symmetric in probabilities we define the support function for interim values using a probability-weighted inner product

$$\mathbf{V} \cdot \mathbf{W} = \sum_{i \in \mathcal{I}} \sum_{x^i \in X^i} f^i(x^i) V^i(x^i) W^i(x^i), \quad (5)$$

where  $\mathbf{W} \in \mathbb{R}^{\sum_i |X^i|}$ . Under the interim transformation all terms are then multiplied by  $\prod_{i \in \mathcal{I}} f^i(x^i)$  and the sum over type profiles in (4) turns into an expectation.

LEMMA 1. *The support function for the set of feasible interim values is*

$$S^{\mathbf{V}}(\mathbf{W}) = E_{\mathbf{x}} \left( \max_{k \in \mathcal{K}} \sum_{i \in \mathcal{I}} a_k^i W^i(x^i) \right) \quad (6)$$

and the feasible interim values  $\mathbf{V}$  satisfy  $\mathbf{V} \cdot \mathbf{W} \leq S^{\mathbf{V}}(\mathbf{W})$  for all  $\mathbf{W} \in \mathbb{R}^{\sum_i |X^i|}$ .

Note that the result of Lemma 1 applies to much more general environments with multi-dimensional and correlated types. In a companion paper Goeree and Kushnir (2016) [14] we also extend the result to settings with non-linear utilities and interdependent values.

### 3.2. Reduced Form Implementation

It is insightful to work out the inequalities in Lemma 1 for single-unit auctions, which fit the social choice framework as follows: alternative  $i = 1, \dots, I$  corresponds to the event when bidder  $i$  wins, i.e.  $a_i^i = 1$  and  $a_k^i = 0$  for  $k \neq i$ , and alternative  $I + 1$  corresponds to the event when the seller keeps the object. In this case, the reduced form value  $V^i(x^i)$  is equal to a bidder  $i$ 's interim chance of winning  $Q^i(x^i) = E_{\mathbf{x}^{-i}}(q^i(\mathbf{x}))$  and the support function in Lemma 1 simplifies to<sup>5</sup>

$$S^{\mathbf{Q}}(\mathbf{W}) = E_{\mathbf{x}} \left( \max_{i \in \mathcal{I}} (0, W^i(x^i)) \right) \quad (7)$$

<sup>5</sup> Note that the zero in (7) corresponds to the alternative when the seller keeps the object.

An exhaustive set of inequalities follows by choosing, for each  $i \in \mathcal{I}$ , a subset  $S^i \subseteq X^i$  and setting  $W^i(x^i) = 1$  for  $x^i \in S^i$  and 0 otherwise and then varying the set  $S^i$ .

PROPOSITION 1. *For the single-unit auction case, the set of feasible interim allocations is determined by*

$$\sum_{i \in \mathcal{I}} \sum_{x^i \in S^i} f^i(x^i) Q^i(x^i) \leq 1 - \prod_{i \in \mathcal{I}} \sum_{x^i \notin S^i} f^i(x^i) \quad (8)$$

for any subset  $S^i \subseteq X^i$ ,  $i = 1, \dots, I$ .

The inequalities in Proposition 1 are known as the Maskin-Riley-Matthews conditions for reduced form auctions. They were conjectured to be necessary and sufficient by Matthews (1984) [29] based on the following intuition: the probability that a certain bidder with a certain type wins (left side) can be no higher than the probability that such a bidder exists (right side). The conjecture was subsequently proven and generalized by Border (1991, 2007) [6, 7]. Besides clarifying their origin, Lemma 1 extends these conditions to social choice problems.

### 3.3. Incentive Compatibility

A mechanism  $(\mathbf{q}, \mathbf{t})$  is *Bayesian incentive compatible* (BIC) if truthful reporting is a Bayes-Nash equilibrium. We also say that an allocation is BIC implementable if there exist transfers that form a BIC mechanism when coupled with the allocation. Myerson (1981) [33] showed that an allocation  $\mathbf{q}$  is BIC implementable if and only if for each  $i = 1, \dots, I$  the interim values are increasing:  $V^i(x_{j-1}^i) \leq V^i(x_j^i)$  for  $j = 2, \dots, N^i$ .<sup>6</sup> Let  $\mathbf{e}(x_j^i)$  denote the unit vector of  $\mathbb{R}^{\sum_i |X^i|}$  in the direction  $x_j^i$  for  $i = 1, \dots, I$  and  $j = 1, \dots, N^i$ . Using the definition of the probability-weighted inner product (5) the Bayesian incentive constraints can be written as

$$(\mathbf{e}(x_{j-1}^i)/f^i(x_{j-1}^i) - \mathbf{e}(x_j^i)/f^i(x_j^i)) \cdot \mathbf{V} \leq 0$$

for  $i = 1, \dots, I$  and  $j = 2, \dots, N^i$ . These constraints define half spaces and their intersection with the set of feasible values defines the set of feasible BIC values. The support function for this intersection is (e.g. Rockafellar, 1997 [34])

$$S^{BIC}(\mathbf{W}) = \inf_{\Lambda \geq 0} S^{\mathbf{V}}(\mathbf{W} - \sum_{i=1}^I \sum_{j=2}^{N^i} \Lambda^i(x_{j-1}^i) (\frac{\mathbf{e}(x_{j-1}^i)}{f^i(x_{j-1}^i)} - \frac{\mathbf{e}(x_j^i)}{f^i(x_j^i)})) = \inf_{\Lambda \geq 0} S^{\mathbf{V}}(\widehat{\mathbf{W}}) \quad (9)$$

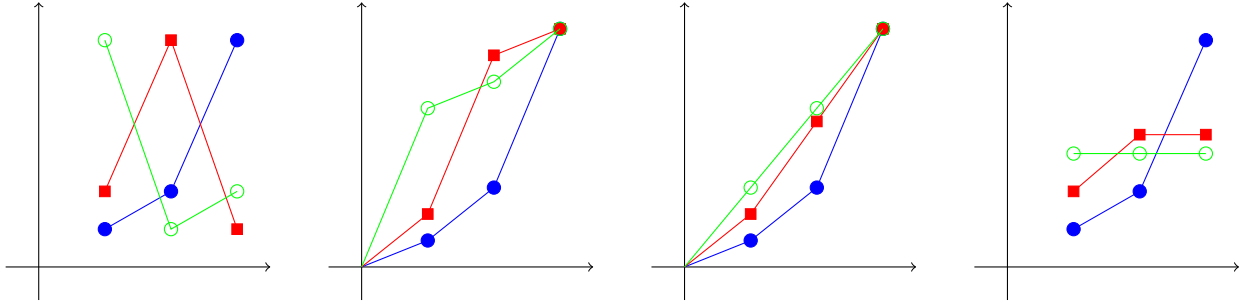
where  $\widehat{W}^i(x_j^i) = W^i(x_j^i) - (\Lambda^i(x_j^i) - \Lambda^i(x_{j-1}^i))/f^i(x_j^i)$  for  $i = 1, \dots, I$  and  $j = 1, \dots, N^i$  with  $\Lambda^i(x_0^i) = \Lambda^i(x_{N^i}^i) = 0$ . Since the  $\Lambda$ 's are non-negative it is readily verified that

$$\sum_{j=1}^l f^i(x_j^i) \widehat{W}^i(x_j^i) \leq \sum_{j=1}^l f^i(x_j^i) W^i(x_j^i)$$

for  $l = 1, \dots, N^i$  with equality for  $l = N^i$ , which we abbreviate as  $\widehat{\mathbf{W}}^i \preceq_{f^i} \mathbf{W}^i$ . For two increasing sequences,  $\mathbf{W}$  and  $\mathbf{W}'$ , we say that  $\mathbf{W}'$  *f<sup>i</sup>-majorizes*  $\mathbf{W}$  if  $\mathbf{W} \preceq_{f^i} \mathbf{W}'$ .

<sup>6</sup> An *increasing* sequence refers to a *weakly increasing* sequence throughout the paper.





**Figure 3.** The three sequences in the leftmost panel are  $\mathbf{W}^1 = (1, 2, 6)$  (solid blue circles),  $\mathbf{W}^2 = (2, 6, 1)$  (red squares), and  $\mathbf{W}^3 = (6, 1, 2)$  (open green circles). The rightmost panel shows the corresponding majorized sequences:  $\mathbf{W}_+^1 = (1, 2, 6)$ ,  $\mathbf{W}_+^2 = (2, \frac{7}{2}, \frac{7}{2})$ , and  $\mathbf{W}_+^3 = (3, 3, 3)$ . The two middle panels (with rescaled  $y$ -axis) show the cumulative sequences for  $\mathbf{W}$  (middle-left) and  $\mathbf{W}_+$  (middle-right). The cumulative of  $\mathbf{W}_+$  is the largest convex function below the cumulative of  $\mathbf{W}$ .

The minimization problem in (9) can thus be written as  $\inf_{\widehat{\mathbf{W}}^i \preceq_{f^i} \mathbf{W}^i} S^{\mathbf{V}}(\widehat{\mathbf{W}})$ . Using the seminal Hardy, Littlewood, and Pólya’s (1929) [15] result we show that its solution  $\mathbf{W}_+^i$  is the “largest” increasing sequence such that  $\mathbf{W}_+^i \preceq_{f^i} \mathbf{W}^i$ , i.e.  $\mathbf{W}_+^i$   $f^i$ -majorizes any other increasing sequence of weights  $\widehat{\mathbf{W}}^i$  that satisfy  $\widehat{\mathbf{W}}^i \preceq_{f^i} \mathbf{W}^i$ . We note that sequence  $\mathbf{W}_+^i$  has to be increasing and generally depends on the distribution of agent  $i$ ’s types.

LEMMA 2. *The support function for the set of feasible and Bayesian incentive compatible interim values is given by*

$$S^{BIC}(\mathbf{W}) = E_{\mathbf{x}} \left( \max_{k \in \mathcal{K}} \sum_{i \in \mathcal{I}} a_k^i W_+^i(x^i) \right)$$

for any  $\mathbf{W} \in \mathbb{R}^{\sum_i |X^i|}$ .

Figure 3 illustrates majorization for the case of three equally likely types. The leftmost panel shows sequences  $\mathbf{W}^1 = (1, 2, 6)$ ,  $\mathbf{W}^2 = (2, 6, 1)$ , and  $\mathbf{W}^3 = (6, 1, 2)$ . The rightmost panel shows the corresponding majorized sequences  $\mathbf{W}_+^1 = (1, 2, 6)$ ,  $\mathbf{W}_+^2 = (2, \frac{7}{2}, \frac{7}{2})$ , and  $\mathbf{W}_+^3 = (3, 3, 3)$ . Note that  $\mathbf{W} = \mathbf{W}_+$  if and only if  $\mathbf{W}$  is increasing. The middle panels show the cumulative sequences for  $\mathbf{W}$  (left) and  $\mathbf{W}_+$  (right) and demonstrates that the cumulative of  $\mathbf{W}_+$  is the largest convex function below the cumulative of  $\mathbf{W}$ .

The discrete majorization procedure thus parallels the “ironing” technique introduced by Mussa and Rosen (1978) [31] and Myerson (1981) [33] for continuous types. This parallel establishes a convenient way to derive the ironed values. As we show in Appendix (Lemma A2), the majorized sequence delivers the minimum to the sum of functions defined over sequences satisfying the majorized constraints for any increasing convex function. In particular, one could consider a quadratic function and minimization problem  $\mathbf{W}_+ = \arg \min_{\widehat{\mathbf{W}} \preceq \mathbf{W}} \sum_j \widehat{W}_j^2$ . This minimization problem could be simply used to derive the majorized or ironed sequence for any given sequence. This could be easily verified for the above examples.

### 3.4. BIC-DIC Equivalence

Similar to BIC we can incorporate dominant-strategy incentive compatibility (DIC) into the support function. Surprisingly, this yields the same support function for the interim values.



EXAMPLE 1. Consider again the auction example of Section 2 but without the symmetry assumption. The support function for the allocation rules  $\mathbf{q}^i = (q_{ll}^i, q_{lh}^i, q_{hl}^i, q_{hh}^i)$  for  $i = 1, 2$  is  $\max(0, w_{ll}^1, w_{ll}^2) + \max(0, w_{hl}^1, w_{lh}^2) + \max(0, w_{lh}^1, w_{hl}^2) + \max(0, w_{hh}^1, w_{hh}^2)$ . Imposing the DIC constraints,  $q_{ll}^i - q_{hh}^i \leq 0$  and  $q_{lh}^i - q_{hl}^i \leq 0$  for  $i = 1, 2$ , and applying the interim mapping to derive the support function for interim allocations yields

$$S^{DIC}(\mathbf{W}) = \inf_{0 \leq \lambda_l^i, \lambda_h^i} \frac{1}{4} \max(0, W_l^1 - \lambda_l^1, W_l^2 - \lambda_l^2) + \frac{1}{4} \max(0, W_h^1 + \lambda_l^1, W_l^2 - \lambda_h^2) \\ + \frac{1}{4} \max(0, W_l^1 - \lambda_h^1, W_h^2 + \lambda_l^2) + \frac{1}{4} \max(0, W_h^1 + \lambda_h^1, W_h^2 + \lambda_h^2)$$

For agent  $i = 1, 2$  there are two minimization parameters,  $\lambda_l^i$  and  $\lambda_h^i$ , while in the BIC case there is only one,  $\Lambda^i$ . However, the above minimization problem has a solution that sets the two equal,  $\lambda_l^i = \lambda_h^i = \frac{1}{2} \max(0, W_l^i - W_h^i)$ , which is also the solution for  $\Lambda^i$  so the BIC and DIC support functions coincide. This solution is apparent when considering the minimization problem over one agent's parameters ignoring the dependence on the other's weights. The reason we can consider each agent's DIC constraints separately stems from their geometric interpretation: each represents the intersection of the feasible set with a half space. Q.E.D.

The next result shows that the BIC and DIC support functions coincide more generally.

PROPOSITION 2. *The support functions for the set of feasible interim values satisfying BIC or DIC constraints coincide:  $S^{DIC}(\mathbf{W}) = S^{BIC}(\mathbf{W})$  for any  $\mathbf{W} \in \mathbb{R}^{\sum_i |X^i|}$ .*

This result implies that for any Bayesian incentive compatible mechanism there exists an equivalent dominant-strategy incentive compatible mechanism, a result first shown for the auction case by Manelli and Vincent (2010) [24] and generalized to social choice settings by Gershkov et al. (2013) [13].

### 3.5. Optimal Mechanisms for Linear Objectives

Consider maximization of the linear objective  $\boldsymbol{\alpha} \cdot \mathbf{V}$  over the set of feasible, incentive compatible interim values. Then  $S^{BIC}(\boldsymbol{\alpha})$  is the optimal value and the optimal mechanism follows from Hotelling's lemma, i.e.  $\mathbf{V}(\boldsymbol{\alpha}) = \nabla S^{BIC}(\boldsymbol{\alpha})$ , see Rockafellar (1997) [34]. Proposition 2 ensures this mechanism can be written as a dominant strategy incentive compatible mechanism.

PROPOSITION 3. *For any social choice problem and any linear objective,  $\boldsymbol{\alpha} \cdot \mathbf{V}$ , an optimal dominant strategy incentive compatible mechanism is given by the allocation rule*

$$q_k(\mathbf{x}) = \begin{cases} 1/|M| & \text{if } k \in M \equiv \operatorname{argmax}_{k \in \mathcal{K}} \sum_{i \in \mathcal{I}} a_k^i \alpha_+^i(x^i) \\ 0 & \text{otherwise} \end{cases} \quad (10)$$

and corresponding payment rule<sup>7</sup>

$$t^i(\mathbf{x}) = \sum_{k \in \mathcal{K}} a_k^i (x^i q_k(\mathbf{x}) - \sum_{x_j^i < x^i} (x_{j+1}^i - x_j^i) q_k(x_j^i, \mathbf{x}^{-i})) \quad (11)$$

<sup>7</sup> The specified payment rule (which is not unique) ensures that the optimal mechanism  $(\mathbf{q}, \mathbf{t})$  is also ex post individually rational. See Section 4 for more details.

Typical examples of linear objectives are expected surplus,  $E_{\mathbf{x}}(\sum_{i \in \mathcal{I}} x^i V^i(x^i)) = \mathbf{x} \cdot \mathbf{V}$ , and expected revenue,  $E_{\mathbf{x}}(\sum_i t^i(\mathbf{x})) = \mathbf{MR} \cdot \mathbf{V}$ , where marginal revenues are defined as

$$MR^i(x_j^i) = x_j^i - (x_{j+1}^i - x_j^i) \frac{1 - F^i(x_j^i)}{f^i(x_j^i)}, \quad i = 1, \dots, I, \quad j = 1, \dots, N^i, \quad (12)$$

with  $x_{N^i+1}^i = x_{N^i}^i$  and  $F^i(x_j^i) = \sum_{l=1}^j f^i(x_l^i)$ . These marginal values are the discrete analogues of Myerson's (1981) [33] "virtual values" for the continuous case.

## 4. General Concave Objectives

In many applied design problems there are distributional goals besides surplus and revenue maximization. Federal procurement in the US, for instance, awards at least 23% of its \$500 billion annual budget to small businesses, with lower targets for businesses owned by women, disabled veterans, and the economically disadvantaged (Athey, Coey, and Levin, 2013 [2]). One way such preferential treatment can be achieved is by using "set asides," which constrain the allocation rule. For example, in the US, procurement contracts under \$100,000 are reserved for small businesses and around \$30 billion in contracts is awarded via set-aside programs. An alternative way is to adapt the payment rule to reflect subsidies to favored firms. The US Federal Communications Commission, for instance, has applied bidding credits to minority-owned firms in some of their spectrum auctions. To incorporate set asides and subsidies we consider objectives that depend on both allocations and payments. We drop the restriction the objective is linear and instead assume it is concave. We show that the optimal mechanism can still be derived using Hotelling's lemma, which now results in a fixed-point equation.

We first derive the support function for the set of interim *values and payments*,  $\mathbf{V}$  and  $\mathbf{T}$ , that satisfy, for each  $i = 1, \dots, I$ , the Bayesian incentive compatibility (BIC) constraints<sup>8</sup>

$$(V^i(x_j^i) - V^i(x_{j-1}^i))x_{j-1}^i \leq T^i(x_j^i) - T^i(x_{j-1}^i) \leq (V^i(x_j^i) - V^i(x_{j-1}^i))x_j^i \quad (13)$$

for  $j = 2, \dots, N^i$ , and the interim individually rationality (INIR) constraints:  $U^i(x^i) = V^i(x^i)x^i - T^i(x^i) \geq 0$  for  $x^i \in X^i$ . Dominant strategy incentive compatibility (DIC) and ex post individual rationality (EXIR) are defined similarly. To include interim payments  $T^i(x^i)$  into the support function we introduce weights  $Z^i(x^i)$  for  $x^i \in X^i$ ,  $i = 1, \dots, I$  and generalize the marginal revenues in (12) to allow for different weights for each of the payments:

$$MR_{Z^i}(x_j^i) = x_j^i Z^i(x_j^i) - \frac{x_{j+1}^i - x_j^i}{f^i(x_j^i)} \sum_{l>j} f^i(x_l^i) Z^i(x_l^i) \quad (14)$$

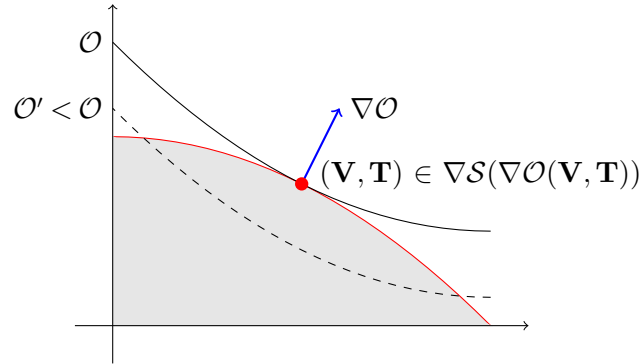
for  $j = 1, \dots, N^i$  with  $x_{N^i+1}^i = x_{N^i}^i$ . This expression reduces to (12) when  $Z^i(x_j^i) \equiv 1$ .

LEMMA 3. *The support function for the set of feasible interim values and payments that satisfy BIC (DIC) and INIR (EXIR) is given by*

$$S^{DIC}(\mathbf{W}, \mathbf{Z}) = S^{BIC}(\mathbf{W}, \mathbf{Z}) = E_{\mathbf{x}} \left( \max_{k \in \mathcal{K}} \sum_{i \in \mathcal{I}} a_k^i (\mathbf{W}^i + \mathbf{MR}_{Z^i})_+(x^i) \right) \quad (15)$$

for any  $\mathbf{W} \in \mathbb{R}^{\sum_i |X^i|}$  and  $\mathbf{Z} \in \mathbb{R}_+^{\sum_i |X^i|}$ .

<sup>8</sup> We consider only adjacent incentive constraints because utilities satisfy the single-crossing condition.



**Figure 4.** The *optimal* interim expected values and payments belong to the gradient of the support function evaluated at the vector of weights that is equal to the gradient of the objective function evaluated at the optimal interim expected values and payments.

Now consider a differentiable concave objective function  $\mathcal{O}(\mathbf{V}, \mathbf{T})$  that is increasing in interim payments. Concave objectives have convex indifference curves and maximization requires that, at the optimal point, the gradient  $\nabla\mathcal{O}$  is normal to the surface of the feasible, incentive compatible set, see Figure 4. Moreover, the gradient of the support function evaluated at this normal vector should yield the optimal point.

**PROPOSITION 4.** *For any social choice problem and any concave differentiable objective  $\mathcal{O}(\mathbf{V}, \mathbf{T})$  increasing in interim payments the interim values and payments corresponding to an optimal DIC and EXIR mechanism satisfy<sup>9</sup>*

$$(\mathbf{V}, \mathbf{T}) \in \nabla\mathcal{S}^{DIC}(\nabla\mathcal{O}(\mathbf{V}, \mathbf{T})) \quad (16)$$

Fixed point equation (16) is a characterization of optimal mechanisms. In contrast to the linear case of Proposition 3 it is not possible to provide explicit solutions for the ex post allocation and payment rules, or their interim equivalents for that matter. Note, however, that the weights for the values and payments enter the support function (15) as linear combinations, which implies that their gradients are closely related. This observation can be used to express the optimal interim payments in terms of the optimal interim values

$$T^i(x^i) = V^i(x^i)x^i - \sum_{x_j^i < x^i} V^i(x_j^i)(x_{j+1}^i - x_j^i)$$

which is the interim version of (11).<sup>10</sup>

## 5. Conclusion

Mechanism design has been successfully applied to a variety of societal issues including the matching of students to schools, interns to hospitals, and organ donors to patients as well as the design of high-stakes auctions to allocate public assets. This paper provides a new powerful perspective on some of these applications by introducing a novel approach to the analysis of optimal mechanisms maximizing

<sup>9</sup> Note that the statement of the proposition immediately extends to any differentiable quasi-concave objective increasing in interim payments.

<sup>10</sup> This expression is an analog of the envelope theorem for continuous settings (Milgrom and Segal, 2002 [30]).

given objectives.<sup>11</sup> Our approach is based on the one-to-one relation between a convex set and its support function. While we are the first to exploit this relation in mechanism design, related methods have a long history in economics and finance and are now standardly taught in micro PhD classes (e.g. Mas-Colell, Whinston, and Green, 1995, p.63 [27]).<sup>12</sup>

Using the novel approach, we first show that the support function for the set of feasible allocations in social choice environments can be obtained off the shelf without doing any calculations. We use this to extend the recent literature on reduced form auctions (e.g. Vohra, 2011 [35]; Che, Kim, and Mierendorff, 2013 [10]; Hart and Reny, 2015 [16]) to social choice settings.<sup>13</sup> Next, we employ results from majorization theory to incorporate incentive compatibility to *any* linear one-dimensional social choice problems and elucidate the “ironing” procedure introduced by Mussa and Rosen (1978) [31] and Myerson (1981) [33].<sup>14</sup> Our support-function characterization of the set of feasible and incentive compatible interim values facilitates an alternative proof for the equivalence of Bayesian and dominant-strategy implementation (see Manelli and Vincent, 2010, 2019 [?]; Gershkov et al., 2013 [13]; Kushnir, 2015 [19]; Kushnir and Liu, 2019 [20]).<sup>15</sup> The support function is piecewise linear, which makes it straightforward to apply Hotelling’s lemma to derive the optimal mechanism for *any* linear objective. Finally, we extend our results to concave objectives by providing a fixed-point equation characterizing the optimal mechanism.

Importantly, our geometric approach is not limited to the environments studied in this paper, i.e. one-dimensional, private, and independent types. In a subsequent (but already published) paper Goeree and Kushnir (2016) [14], we apply the new techniques to explore reduced-form implementation for social choice environments with interdependent values. Other applications, e.g. multi-dimensional types, are possible and are left for future work.

<sup>11</sup> Hence, our paper is related, in spirit, to Bulow and Roberts (1989) [8] who gracefully reinterpret the problem of the revenue-maximizing auction through the prism of monopolistic third-degree price discrimination. Similarly, we use basic tools of convex analysis to provide a unified and simple treatment of optimal mechanisms.

<sup>12</sup> Support functions have been applied in decision theory (Dekel et al., 2001 [11]), econometrics (Beresteanu and Molinari, 2008 [5]), and mathematical finance (Ekeland et al., 2012 [12]). The relation between a convex closed set and its support function is an example of the duality in convex analysis that has been previously heavily exploited in economics (see Bardsley, 2012 [4]; Makowski and Ostroy, 2013 [23]; and Baldwin and Klemperer, 2019 [3]).

<sup>13</sup> Alaei et al. (2012) [1] and Cai et al. (2012) [9] exploit reduced form auctions in computer science literature.

<sup>14</sup> See e.g. Mosler (1994) [32] for a survey of the use of majorization theory in economics.

<sup>15</sup> Our characterization complements Ledyard and Palfrey (1999, 2007) [21, 22] who identify the set of interim efficient mechanisms using Lagrangian methods. See also Kucuksenel (2012) [18] who characterizes interim efficient mechanisms for settings with interdependent values.

## A. Appendix

**Proof of Proposition 1.** Necessity of the inequalities follows from the definition of the support function. Sufficiency also follows easily from our approach by interpreting (8) in terms of hyperplanes that bound the interim expected probability set. Any boundary point of the interim expected probability set, i.e. any  $\mathbf{Q}$  that satisfies  $\mathbf{Q} \cdot \mathbf{W} = \mathcal{S}^{\mathbf{Q}}(\mathbf{W})$  for some  $\mathbf{W}$ , can be written as  $\mathbf{Q} = \nabla \mathcal{S}^{\mathbf{Q}}(\mathbf{W})$  at points of differentiability of the support function from the envelope theorem. Furthermore, if  $\mathcal{S}^{\mathbf{Q}}(\mathbf{W})$  is not differentiable at  $\mathbf{W}$  then the subdifferential  $\nabla \mathcal{S}^{\mathbf{Q}}(\mathbf{W})$  produces a face on the boundary: for any  $\mathbf{Q}$  belonging to such a face we have

$$(\mathbf{Q} - \mathbf{Q}') \cdot \mathbf{W} = \mathcal{S}^{\mathbf{Q}}(\mathbf{W}) - \mathcal{S}^{\mathbf{Q}'}(\mathbf{W}) = 0.$$

Each point of non-differentiability,  $\mathbf{W}$ , therefore defines a normal vector to the face of the polyhedron, formed by  $\nabla \mathcal{S}^{\mathbf{Q}}(\mathbf{W})$ . For the support function (7) the points of non-differentiability are weight vectors with several equal entries, and those equal entries are the largest entries for some profile of types  $\mathbf{x}$ . Since non-maximum entries does not change the value of the support function we can consider only weights where these entries are 0. Since the support function is homogeneous of degree one we can restrict ourselves to weights with only 1 and 0 entries. Then considering all non-trivial  $\mathbf{W} \in \{0, 1\}^{\sum_i X^i}$  exhausts all hyperplanes containing one of the boundary faces of the interim expected probability set. Q.E.D.

**Proof of Lemma 2 and Propositions 2.** The statements of the lemma and the proposition follow from more general results established in Lemma 3 incorporating also payments into the support function. Q.E.D.

**Proof of Proposition 3.** Using Lemmas 1, 2, Proposition 2, and the definition of the interim support function we have

$$\mathcal{S}^{DIC}(\boldsymbol{\alpha}) = \mathcal{S}^{BIC}(\boldsymbol{\alpha}) = \mathcal{S}^{\mathbf{V}}(\boldsymbol{\alpha}_+) = \max\left\{ E_{\mathbf{x}}\left(\sum_{k \in \mathcal{K}} q_k(\mathbf{x}) \sum_{i \in \mathcal{I}} a_k^i \alpha_+^i(x^i)\right) \mid \mathbf{q} \text{ is feasible} \right\}.$$

This establishes the optimality of the allocation rule in (10). To derive the payments consider dominant strategy incentive compatibility constraints<sup>16</sup>

$$(v^i(x_j^i, \mathbf{x}^{-i}) - v^i(x_{j-1}^i, \mathbf{x}^{-i}))x_{j-1}^i \leq t^i(x_j^i, \mathbf{x}^{-i}) - t^i(x_{j-1}^i, \mathbf{x}^{-i}) \leq (v^i(x_j^i, \mathbf{x}^{-i}) - v^i(x_{j-1}^i, \mathbf{x}^{-i}))x_j^i$$

for  $j = 2, \dots, N^i$ . Moreover, ex post individual rationality requires that  $v^i(\mathbf{x})x^i - t^i(\mathbf{x}) \geq 0$  for all  $\mathbf{x} \in X$ . Considering the payments binding the upward incentive constraints and the ex post individual rationality constraint for the lowest type we recursively calculate

$$t^i(\mathbf{x}) = v^i(\mathbf{x}) - \sum_{x_j^i < x^i} (x_{j+1}^i - x_j^i) v^i(x_j^i, \mathbf{x}^{-i})$$

for  $\mathbf{x} \in X$  and  $i \in \mathcal{I}$ . This establishes the claim of the proposition. Q.E.D.

<sup>16</sup> We consider only adjacent incentive constraints because utilities satisfy the single-crossing condition.

**Proof of Lemma 3.** For clarity, we first outline the main steps of the proof. As a first step, we derive the support function for the set of feasible interim expected values and payments (similarly to (6)). As a second step, we state the result from the majorization theory and prove a useful lemma. Using this lemma we then incorporate Bayesian incentive compatibility (13) and interim individual rationality constraints into the support function. Finally, as a third step, we consider the dominant strategy incentive compatibility and ex post individual rationality constraints and show that these constraints result into the same support function.

We begin by deriving the support function for the set of feasible interim expected values and payments. Since we do not restrict payments, the feasible set of payments (not yet taking into account incentive constraints) is the whole space  $\mathbb{R}^{\sum_i |X^i|}$ . Hence, the support function for the feasible set equals  $E_{\mathbf{x}}(\delta(Z^i(x^i) = 0, \forall x^i, \forall i)$ , where we use the standard definition of  $\delta$ -function that equals 0 if its argument is true and  $+\infty$  otherwise, and weight  $Z^i(x^i)$  corresponds to  $T^i(x^i) \in \mathbb{R}$  for  $x^i \in X^i$ ,  $i = 1, \dots, I$ . Combining this expression with the result of Lemma 1 we obtain that the support function for the set of feasible interim expected values and payments equals

$$\mathcal{S}^{\text{VT}}(\mathbf{W}, \mathbf{Z}) = E_{\mathbf{x}} \left( \max_{k \in \mathcal{K}} \left( \sum_{i \in \mathcal{I}} a_k^i W^i(x^i) \right) + \delta(Z^i(x^i) = 0, \forall x^i, \forall i) \right) \quad (\text{A.1})$$

where  $\mathbf{W} \in \mathbb{R}^{\sum_i |X^i|}$  and  $\mathbf{Z} \in \mathbb{R}^{\sum_i |X^i|}$ .

We now state an important result from the majorization theory that dates back to Hardy, Littlewood, and Pólya (1929) [15] (see Marshall et al., 2011 [26]).<sup>17</sup> Let  $f_1, \dots, f_n$  denote arbitrary non-negative numbers and consider two *increasing* sequences  $\sigma$  and  $\varsigma$  of length  $n$  related with the majorization order  $\sigma \succeq_f \varsigma$  (see the definition in Section 3.3). We then say that sequence  $\sigma$  *f*-majorizes  $\varsigma$ .

**Lemma A1.** *If  $\sigma$  f-majorizes  $\varsigma$  we have*

$$\sum_{j=1}^n f_j g(\sigma_j) \leq \sum_{j=1}^n f_j g(\varsigma_j)$$

for any continuous increasing convex function  $g : \mathbb{R} \rightarrow \mathbb{R}$ .

We use this result to prove the following powerful lemma that will be useful for incorporating the incentive constraints into the support function.

**Lemma A2.** *For any sequence  $\sigma$ ,*

$$\sigma_+ = \arg \min_{\sigma \succeq_f \varsigma} \sum_{j=1}^n f_j g(\varsigma_j) \quad (\text{A.2})$$

for any continuous increasing convex function  $g : \mathbb{R} \rightarrow \mathbb{R}$ .

**Proof:** Let us first construct  $\sigma_+$ . For any increasing sequence  $\varsigma \in \mathbb{R}^n$ , let us define function  $h_l(\varsigma) = \sum_{j=1}^l f_j \varsigma_j$  and  $\alpha_l = \sup_{\sigma \succeq_f \varsigma} h_l(\varsigma)$ ,  $l = 1, \dots, n$ , where the supremum is taken only over increasing sequences. Define now sequence  $\sigma_+$  as  $(\sigma_+)_l = (\alpha_l - \alpha_{l-1})/f_l$ , where  $\alpha_0 = 0$ . Clearly, we have (i)  $\sigma \succeq_f \sigma_+$

<sup>17</sup> This result is also closely related to Karamata's inequality (see Karamata, 1932 [17]).

and (ii)  $\sigma_+ \succeq_f \varsigma$  for any *increasing* sequence  $\varsigma$  satisfying  $\sigma \succeq_f \varsigma$ . To prove that  $\sigma_+$  is itself increasing we notice that  $\frac{h_l(\varsigma)}{f_l} + \frac{h_{l-2}(\varsigma)}{f_{l-1}} \geq (\frac{1}{f_l} + \frac{1}{f_{l-1}})h_{l-1}(\varsigma)$  for any increasing sequence  $\varsigma$  and  $l = 2, \dots, n$ . Therefore,

$$\sup_{\sigma \succeq_f \varsigma} \left( \frac{h_l(\varsigma)}{f_l} + \frac{h_{l-2}(\varsigma)}{f_{l-1}} \right) \geq \left( \frac{1}{f_l} + \frac{1}{f_{l-1}} \right) \sup_{\sigma \succeq_f \varsigma} h_{l-1}(\varsigma)$$

where the supremums are taken over only increasing sequences. Notice that the supremum of a sum is smaller than the sum of the supremums. After a rearrangement we then obtain  $(\alpha_l - \alpha_{l-1})/f_l \geq (\alpha_{l-1} - \alpha_{l-2})/f_{l-1}$ , which proves that  $\sigma_+$  is increasing.

We now consider minimization problem (A.2). We show that, without loss of generality, we can restrict attention to increasing sequences  $\varsigma$ . Consider some  $\varsigma$  with  $\varsigma_l > \varsigma_k$  for some  $l < k$ . Then define the sequence  $\tilde{\varsigma}$  with elements  $\tilde{\varsigma}_l = \varsigma_l - \varepsilon(\varsigma_l - \varsigma_k)/f_l$  and  $\tilde{\varsigma}_k = \varsigma_k + \varepsilon(\varsigma_l - \varsigma_k)/f_k$  while  $\tilde{\varsigma}_j = \varsigma_j$  for  $j \neq l, k$ . The sequence  $\tilde{\varsigma}$  also satisfies  $\sigma \succeq_f \tilde{\varsigma}$ . Since  $g(\cdot)$  is convex we have

$$f_l g(\tilde{\varsigma}_l) + f_k g(\tilde{\varsigma}_k) \leq f_l g(\varsigma_l) + f_k g(\varsigma_k)$$

and, hence,  $\sum_{j=1}^n f_j g(\tilde{\varsigma}_j) \leq \sum_{j=1}^n f_j g(\varsigma_j)$ . Repeatedly applying this procedure results in a increasing sequence  $\tilde{\varsigma}$  that satisfies  $\sigma \succeq_f \tilde{\varsigma}$ . But any such sequence is  $f$ -majorized by  $\sigma_+$ . Hence, the statement of the lemma follows from Lemma A1. Q.E.D.

Using the above result we now incorporate the Bayesian incentive compatibility and interim individual rationality constraints into the support function. For convenience we rewrite these constraints as follows.

$$T^i(x_j^i) - T^i(x_{j-1}^i) \geq x_{j-1}^i (V^i(x_j^i) - V^i(x_{j-1}^i)) \quad (\text{A.3})$$

$$T^i(x_j^i) - T^i(x_{j-1}^i) \leq x_j^i (V^i(x_j^i) - V^i(x_{j-1}^i)) \quad (\text{A.4})$$

$$T^i(x_j^i) \leq x_j^i V^i(x_j^i) \quad (\text{A.5})$$

The support function of the intersection of non-empty closed convex sets is the convolution of the support functions of these sets. When some sets are half spaces  $\mathbf{B}^m \cdot \mathbf{V} \leq 0$  for  $m = 1, \dots, M$  the operation of convolution reduces to  $\inf_{\Lambda^m \geq 0} S^{\mathbf{V}^T}(\mathbf{W} - \sum_m \Lambda^m \mathbf{B}^m)$  (see Rockafellar, 1997 [34]).

Let us denote parameters corresponding to constraints (A.3), (A.4), and (A.5) as  $\Lambda^i(x_{j-1}^i)$ ,  $\gamma^i(x_j^i)$ , and  $\mu^i(x_j^i)$  respectively. The support function for feasible values and payments satisfying these constraints can be calculated as

$$S^{BIC}(\mathbf{W}, \mathbf{Z}) = \inf_{\Lambda, \gamma, \mu \geq 0} E_{\mathbf{x}} \left( \max_{k \in \mathcal{K}} \left( \sum_i a_k^i \widehat{W}^i(x^i) \right) + \delta(\widehat{Z}^i(x^i) = 0, \forall x^i, \forall i) \right) \quad (\text{A.6})$$

where we denote

$$\widehat{W}^i(x_j^i) = W^i(x_j^i) + \frac{1}{f^i(x_j^i)} (-x_{j-1}^i \Lambda^i(x_{j-1}^i) + x_j^i \Lambda^i(x_j^i) + x_j^i \gamma^i(x_j^i) - x_{j+1}^i \gamma^i(x_{j+1}^i) + x_j^i \mu^i(x_j^i))$$

$$\widehat{Z}^i(x_j^i) = Z^i(x_j^i) + \frac{1}{f^i(x_j^i)} (\Lambda^i(x_{j-1}^i) - \Lambda^i(x_j^i) - \gamma^i(x_j^i) + \gamma^i(x_{j+1}^i) - \mu^i(x_j^i))$$

Note that we use convention that  $\Lambda^i(x_0^i) = \Lambda^i(x_{N^i}^i) = 0$  and  $\gamma^i(x_1^i) = \gamma^i(x_{N^i+1}^i) = 0$ . Since agents' utilities satisfy the single crossing condition the interim individual rationality constraints are binding only for the lowest type, i.e.  $\mu^i(x_j^i) = 0$  for  $j = 2, \dots, N^i$ . Summing up constraints  $\widehat{Z}^i(x^i) = 0$  of formula (A.6) over all types  $x^i \in X^i$  we then obtain

$$\mu^i(x_1^i) = \sum_{l=1}^{N^i} Z^i(x_l^i) f^i(x_l^i)$$



Similarly, summing up constraints  $\widehat{Z}^i(x^i) = 0$  starting from  $x_j^i$ ,  $j = 2, \dots, N^i$  we obtain

$$\gamma^i(x_j^i) = \sum_{l=j}^{N^i} Z^i(x_l^i) f^i(x_l^i) + \Lambda^i(x_{j-1}^i)$$

Note that for non-negative weights  $\mathbf{Z} \in \mathbb{R}_+^{\sum_i |X^i|}$  inequalities  $\mu^i(x_1^i) \geq 0$  and  $\gamma^i(x_j^i) \geq 0$  are automatically satisfied. With some abuse of notation we replace  $(x_{j+1}^i - x_j^i) \Lambda^i(x_j^i)$  with  $\Lambda^i(x_j^i)$ . Substituting the above expressions into formula (A.6) we obtain

$$\mathcal{S}^{BIC}(\mathbf{W}, \mathbf{Z}) = \inf_{0 \leq \Lambda^i(x^i)} E_{\mathbf{x}} \left( \max_{k \in \mathcal{K}} \sum_{i \in \mathcal{I}} a_k^i (W^i(x^i) + MR_{Z^i}(x^i) - \frac{\Delta \Lambda^i(x^i)}{f^i(x^i)}) \right)$$

Let us now define shifted weights  $\widehat{W}^i(x^i) = W^i(x^i) + MR_{Z^i}(x^i) - \Delta \Lambda^i(x^i) / f^i(x^i)$ . It is straightforward to verify that  $\mathbf{W}^i + \mathbf{MR}_{Z^i} \succeq_{f^i} \widehat{\mathbf{W}}^i$  for all  $i \in \mathcal{I}$ .<sup>18</sup> Therefore, Lemma A2 implies that  $(\mathbf{W}^i + \mathbf{MR}_{Z^i})_+$  delivers the minimum to the above expression, which establishes the claim of the proposition for support function  $\mathcal{S}^{BIC}(\mathbf{W}, \mathbf{Z})$ .

As the last step of the proof, we show that the introduction of the dominant strategy incentive compatibility constraints

$$t^i(x_j^i, \mathbf{x}^{-i}) - t^i(x_{j-1}^i, \mathbf{x}^{-i}) \geq x_{j-1}^i (v^i(x_j^i, \mathbf{x}^{-i}) - v^i(x_{j-1}^i, \mathbf{x}^{-i})) \quad (\text{A.7})$$

$$t^i(x_j^i, \mathbf{x}^{-i}) - t^i(x_{j-1}^i, \mathbf{x}^{-i}) \leq x_j^i (v^i(x_j^i, \mathbf{x}^{-i}) - v^i(x_{j-1}^i, \mathbf{x}^{-i})), \quad (\text{A.8})$$

and ex post individual rationality constraints

$$t^i(x_j^i, \mathbf{x}^{-i}) \leq x_j^i v^i(x_j^i, \mathbf{x}^{-i}) \quad (\text{A.9})$$

lead to the same support function. To accomplish this we use the geometric interpretation of incentive constraints: the support function minimization problem corresponds to the intersection of the feasible set with the corresponding incentive constraint. Hence, we can include the constraints to support function (A.1) for one agent at a time.

We first include only agent 1's constraints to the support function using arguments similar to ones used in the derivation of support function  $\mathcal{S}^{BIC}(\mathbf{W}, \mathbf{Z})$ . Let us denote parameters corresponding to constraints (A.7) as  $\lambda^1(x_{j-1}^1, \mathbf{x}^{-1})$  with  $\lambda^1(x_0^1, \mathbf{x}^{-1}) = \lambda^1(x_{N^1}^1, \mathbf{x}^{-1}) = 0$ , and  $\Delta \lambda^1(x_j^1, \mathbf{x}^{-1}) = \lambda^1(x_j^1, \mathbf{x}^{-1}) - \lambda^1(x_{j-1}^1, \mathbf{x}^{-1})$ . We then obtain

$$\mathcal{S}_{agent_1}^{DIC}(\mathbf{W}, \mathbf{Z}) = \inf_{0 \leq \lambda^1(\mathbf{x})} E_{\mathbf{x}} \left( \max_{k \in \mathcal{K}} (a_k^1 (W^1(x^1) + MR_{Z^1}(x^1) - \frac{\Delta \lambda^1(\mathbf{x})}{f^1(x^1)}) + \sum_{i \neq 1} a_k^i (W^i(x^i) + MR_{Z^i}(x^i))) \right)$$

We again consider the shifted weights  $\widehat{W}^1(\mathbf{x}) = W^1(x^1) + MR_{Z^1}(x^1) - \frac{\Delta \lambda^1(\mathbf{x})}{f^1(x^1)}$ . For each  $\mathbf{x}^{-1}$  vector

<sup>18</sup> Note that  $\sum_{j=1}^l \Delta \Lambda^i(x_j^i) = \Lambda^i(x_l^i) - \Lambda^i(x_0^i) \geq 0$  for  $l = 1, \dots, N^i$  with equality for  $l = N^i$ .

$\widehat{\mathbf{W}}^1(\cdot, \mathbf{x}^{-1})$  satisfies  $\mathbf{W}^1 + \mathbf{MR}_{\mathbf{Z}^1} \succeq_{f^1} \widehat{\mathbf{W}}^1(\cdot, \mathbf{x}^{-1})$  and the above minimization problem can be rewritten as

$$\sum_{\mathbf{x}^{-1}} \mathbf{W}^1 + \mathbf{MR}_{\mathbf{Z}^1} \succeq_{f^1} \widehat{\mathbf{W}}^1(\cdot, \mathbf{x}^{-1}) \inf_{\widehat{\mathbf{W}}^1(\cdot, \mathbf{x}^{-1})} \sum_{x^1} f^1(x^1) g^1(\widehat{\mathbf{W}}^1(x^1, \mathbf{x}^{-1}))$$

where  $g^1(y) = f^{-1}(\mathbf{x}^{-1}) \max_{k \in \mathcal{K}} (a_k^1 y + \sum_{j \neq 1} a_k^j (W^j(x^j) + MR_{Z^j}(x^j)))$  is a convex function of  $y$ . Lemma A2 asserts that  $\widehat{\mathbf{W}}^1(\cdot, \mathbf{x}^{-1}) = (\mathbf{W}^1 + \mathbf{MR}_{\mathbf{Z}^1})_+$  for each  $\mathbf{x}^{-1}$  solves the above minimization problem.

Let us now assume that we have introduced the constraints of  $i-1$  agents. The minimization problem that corresponds to the introduction of the constraints of agent  $i$  is

$$\sum_{\mathbf{x}^{-i}} \mathbf{W}^i + \mathbf{MR}_{\mathbf{Z}^i} \succeq_{f^i} \widehat{\mathbf{W}}^i(\cdot, \mathbf{x}^{-i}) \inf_{\widehat{\mathbf{W}}^i(\cdot, \mathbf{x}^{-i})} \sum_{x^i} f^i(x^i) g^i(\widehat{\mathbf{W}}^i(x^i, \mathbf{x}^{-i}))$$

where shifted weights equal  $\widehat{W}^i(x^i) = W^i(x^i) + MR_{Z^i}(x^i) - \frac{\Delta \lambda^i(\mathbf{x})}{f^i(x^i)}$  and function

$$g^i(y) = f^{-i}(\mathbf{x}^{-i}) \max_{k \in \mathcal{K}} \left( \sum_{j < i} a_k^j (W^j(x^j) + MR_{Z^j}(x^j))_+ + a_k^i y + \sum_{j > i} a_k^j (W^j(x^j) + MR_{Z^j}(x^j)) \right)$$

is a convex function of  $y$ . Lemma A2 again asserts that  $\widehat{\mathbf{W}}^i(\cdot, \mathbf{x}^{-i}) = (\mathbf{W}^i + \mathbf{MR}_{\mathbf{Z}^i})_+$  for each  $\mathbf{x}^{-i}$  solves the above minimization problem. Proceeding in this way for all agents, we finally obtain that the support function for the feasible interim expected values and payments that satisfies constraints (A.7-A.9) coincides with  $\mathcal{S}^{BIC}(\mathbf{W}, \mathbf{Z})$ . Q.E.D.

**Proof of Proposition 4.** Vector  $(\mathbf{V}^*, \mathbf{T}^*)$  belongs to  $\nabla \mathcal{S}^{DIC}(\nabla \mathcal{O}(\mathbf{V}^*, \mathbf{T}^*))$  if and only if (see Theorem 23.5 in Rockafellar, 1997)

$$(\mathbf{V}^*, \mathbf{T}^*) \in \operatorname{argmax}((\mathbf{V}, \mathbf{T}) \cdot \nabla \mathcal{O}(\mathbf{V}^*, \mathbf{T}^*) \mid (\mathbf{V}, \mathbf{T}) \in C)$$

where  $C$  is the set of dominant strategy incentive compatible and ex post individually rational agent interim values and payments. This is equivalent to  $\nabla \mathcal{O}(\mathbf{V}^*, \mathbf{T}^*)$  be tangent to set  $C$  at  $(\mathbf{V}^*, \mathbf{T}^*)$  (see p. 15, Rockafellar, 1997 [34]). Finally, Theorem 27.4 in Rochafellar (1997) [34] establishes that this is equivalent to  $(\mathbf{V}^*, \mathbf{T}^*)$  be a vector where maximum of  $\mathcal{O}(\mathbf{V}, \mathbf{T})$  relative to  $C$  is attained. Q.E.D.

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