Optimal Secondary Spectrum Auctions for Markets with Communication Constraints

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Abstract—Auctions have been proposed as a way to provide economic incentives for primary users to dynamically allocate unused spectrum to other users in need of it. Previously proposed schemes do not take into account the fact that users’ power constraints might prevent them from transmitting their bid prices to the auctioneers with high precision, and that transmitted bid prices must travel through a noisy channel. These schemes also have very high overheads which cannot be accommodated in wireless standards. We propose auction schemes where a central clearing authority auctions spectrum to users who bid for it, while taking into account quantization of prices, feedback overheads and noise in the channel explicitly. Our schemes are closely related to channel output feedback problems and specifically to the technique of posterior matching. We consider several scenarios where the objective of the clearing authority is to award spectrum to the bidders who value spectrum the most. We prove theoretically that this objective is asymptotically attained by our scheme when the bidders are non-strategic with constant bids. We propose separate schemes to make strategic users reveal their private values truthfully, to auction multiple sub-channels among strategic users, and to track slowly time-varying bid prices. Our simulations illustrate the optimality of our schemes for constant bid prices, and also demonstrate the effectiveness of our tracking algorithm for slowly time-varying bids.

Keywords—Secondary spectrum markets, auctions, posterior matching

I. INTRODUCTION

The increasing interest in cognitive radio systems has led to the development of the IEEE 802.22 and IEEE 802.16 standards [2], [3]. These standards support some of the flexible and shared spectrum features of cognitive radios. Both these cognitive radio standards have mechanisms for communication between base stations, which can enable sharing of unused spectrum among unlicensed users who compete for it. In this setting, an economic incentive might be necessary for spectrum owners to be willing to allocate their unused spectrum to other users who are in need of it. As a way of providing this incentive to the spectrum owner, secondary spectrum auctions have been proposed for dynamic spectrum allocation.

Spectrum auctions that account for interference constraints are proposed in [4], [5] and [6]. In [5] and [6], computationally efficient suboptimal schemes have been proposed to allocate multiple channels, with the objective of maximizing revenue. Online spectrum auctions, where users can bid for spectrum at any time when they need it, can be prone to manipulation, which might result in lower revenues for the auctioneer [7]. Spectrum sharing problems have been viewed from a game theoretic perspective in [8] where fairness and efficiency in spectrum sharing have been studied. There have also been other papers that consider pricing in secondary spectrum markets from a game theoretic perspective [9], [10], [11], [12]. Auction based resource allocation has been studied for cooperative networks in [13]. While auctions are an economically appealing method of dynamic spectrum allocation, mechanisms have also been proposed in dynamic trading of spectrum contracts among primary and secondary users in [14]. Spectrum sharing based on contracts has also been considered for cooperative networks in [15]. There have been efforts in modeling secondary spectrum markets as double auction markets [16], whose structure closely resembles financial markets. In [17], the authors use a portfolio optimization approach to spectrum trading.

The drawbacks of the schemes in the current literature become clear when we look at the close connection between secondary spectrum auctions and user scheduling problems. In a scheduling problem, a scheduler collects channel quality information (CQI) from the users that it serves. Based on the CQI and fairness considerations, the scheduler allocates time or frequency slots to users. It could, for example, assign the next channel use slot to the user with the best signal-to-noise ratio (SNR). But feedback from users in the form of instantaneous SNR would make such scheduling algorithms impractical as the number of users increases [18]. This is because the amount of power and bandwidth required for reliable feedback would be enormous. Therefore, a number of papers have attempted to reduce feedback in user scheduling problems. One method to reduce feedback from users is for users to transmit quantized SNR information only if their SNR exceeds a particular threshold [19]. In [18] and [20], the authors study the scenario where the users transmit SNR information that is quantized using multiple levels. It has been argued in [20] and [21] that increasing the number of feedback bits results in diminishing improvements in throughput.

Two other challenges in user scheduling are due to latency and erroneous feedback bits. In [22], the impact of latency on such schemes is analyzed, where a user could be allowed to transmit at a time slot based on outdated CQI. Similarly, delay is an important factor in auction design when feedback loads are high and the bids of the users change with time due to changing channel quality. The authors of [22] find that system performance degrades significantly with delay, even when the channel is slowly varying with time. In [23], the authors study the scheduling problem under a practical scenario where there are errors in the feedback bits, and show that schemes that improve upon maximum SNR scheduling can be designed when the CQI is noisy. Literature surveys about limited feedback in wireless communications in general,
and with specific emphasis on adaptive transmission and scheduling can be found in [24] and [25] respectively.

The challenges tackled in the user scheduling literature also affect the design of schemes for secondary spectrum auctions. In the context of both secondary spectrum auctions and user scheduling, users have access only to finite-rate control channels, which is why they compete for spectrum in the first place. Moreover, power constraints on mobile devices and delay requirements in the case of slowly time-varying bid prices put forth a strong case for designing auction mechanisms where users are required to transmit a very small number of bits to the auctioneer for bid revelation and bid updates.

In this paper, we propose several auction schemes under a scenario where there are two-way channels between the auctioneer (or clearing authority – abbreviated as CA) and the users. Our schemes explicitly take into account the practical issues that arise due to quantization requirements and noise. In such a set-up, the time period of interest is divided into multiple rounds, where each round consists of an update-and-allocate period and a spectrum use period. During an update-and-allocate period, each user can only transmit a small, fixed number of bits to the CA through a noisy channel. This is because users are heavily constrained by the available power and bandwidth. The CA then chooses a winner for each spectrum unit under auction. Since the CA does not know the actual bids, it treats them as random variables and makes spectrum award decisions based on its estimates of these random variables. The winners can use the spectrum awarded to them during the next spectrum use period. After the spectrum use period, the CA gets back control of the spectrum and begins the next round of allocations. A natural objective of the CA is to discover the true values of the users and allocate spectrum to users who value it the most as the number of auction rounds increases.

The central contribution of our paper is a scheme which enables the CA to asymptotically achieve its objective of discovering the bid prices of the users and allocate spectrum to the highest bidder. We moreover show that asymptotically, the CA’s revenue can be made arbitrarily close to the highest bid. At the beginning of an update period, the users send one bit each to the CA, which is a function of both the bid price and the feedback bits received from the CA. The bids are estimated by the CA from their posterior distributions, conditioned on the information available to the CA till that round. The CA then sends two bits back to each user, one informing the user whether or not it is the winner for that round, and the other informing the user about the CA’s new bid estimate. The two bits from the CA to each user are assumed to be received without error due to the abundant communication resources at the CA’s disposal. In the next round, the users reply back in the same fashion as before, and the process continues as long as the CA has a unit of spectrum to auction.

This scheme is attractive firstly because we prove that it is asymptotically optimal. In other words, we prove that even under constraints of very limited signaling and noisy transmission from the users to the CA, our scheme guarantees that the CA asymptotically allocates spectrum to the highest bidder as the number of auction rounds increases. Secondly due to the small communication overheads, our scheme can be extended to handle other practical issues like strategic bidders, auctioning multiple units of spectrum and accounting for time varying bid prices. Our method is closely related to the technique of posterior matching [26], [27], due to which we call it matched auctioning. Since the CA is typically a base station that can transmit using a large amount of power, we assume that the channel from the CA to each user is noiseless (whereas the user-to-CA channels are noisy). This assumption is critical to the optimality of our proposed scheme. In the presence of noise in the CA-to-user channels, noise would accumulate with each round and this case warrants further investigation. The organization and the main contributions of our paper are as follows:

**Auction design under practical communication constraints:** We model quantization and noise for the first time in the context of secondary spectrum auctions and devise schemes for auctions under practical constraints. In the next section, we describe the system set-up and provide an outline for single-unit multi-round auctions.

**Unmatched auctioning:** To study the behavior of the schemes in the existing literature under communication constraints, we first propose a scheme to auction one unit of spectrum, where the users do not utilize the feedback bits from the CA to decide their future transmissions. This motivating example is suboptimal since it does not provide any allocation guarantees, and is described in Section III.

**Matched auctioning:** Our central scheme to auction one spectrum unit among non-strategic users is described in Section IV. We prove that this scheme is asymptotically optimal in the sense of getting arbitrarily close to maximizing the CA’s revenue and allocating spectrum to the highest bidder as the number of auction rounds increases. Following this, we propose three separate extensions accounting for other practical considerations. These extensions illustrate the importance of schemes with low communication overheads and the scalability of matched auctioning.

**Quantized single-unit auctions with strategic users:** In Section V we propose a single unit auction scheme called truthful matched auctioning that can handle strategic users. These are non-cooperating and rational users that attempt to maximize their payoff. Under truthful matched auctioning, truthful bid revelation is weakly dominant as the number of update rounds increases. This result is suggested from our simulation results.

**Quantized Vickrey auctions:** As the second extension, we propose a scheme to simultaneously auction multiple units of spectrum among strategic users. Simulations of this scheme also show that truthful bid revelation is a weakly dominant strategy as the number of rounds increases. Quantized Vickrey auctioning can be viewed as a generalization of truthful matched auctioning, and is described in Section VI.

**Matched auctioning with slowly time-varying bids:** Constant bid prices can be a strong assumption for wireless systems. For example, a user could be a mobile device that wants to vary its bid due to changing channel conditions. Simulations of the scheme that we propose in Section VII for this scenario show that our tracking method gives revenues close to the optimal revenue, and outperforms matched auctioning for a wide range of parameters that govern bid price dynamics.
Our simulation results and the conclusion are presented in Sections VIII and IX respectively.

II. SYSTEM SET-UP AND SINGLE-UNIT AUCTION SCHEME OUTLINE

Consider the scenario of \( N \) users bidding for one unit of spectrum that is being auctioned by a central clearing authority — abbreviated as CA. The CA is a base-station and the users could be wireless devices in a particular cell, or even other base stations.

A. Definitions and preliminaries

Secondary spectrum auctions are modeled as private value auctions, in which the \( i \)th user attaches a value \( v_i \) to the object under auction. These values are only known to the respective users. Prior to receiving any information from the users, the auctioneer models these values as i.i.d. random variables. In spectrum auctions, this distribution models channel conditions, user requirements, and other factors which would affect the value of one spectrum unit. The strategy of the \( i \)th user is a mapping from its true value \( v_i \) into a bid price i.e., \( s_i(v_i) = b_i \). In a standard auction, the \( i \)th user will win the auction if it has the highest bid. The auctioneer then charges an ask price equal to \( a_i \), giving the winner a payoff equal to \( v_i - a_i \) and zero payoff for the others. A strategic user is one which behaves so as to maximize its payoff. If a user is non-strategic, then its strategy is the identity function. A non-strategic user is also assumed to always be truthful and to adhere to the auction rules, even if deviating from the rules would give it higher payoffs.

A natural choice for the ask price that the winner gets charged, is the winning bid itself. Such an auction is called a first price auction. Bidding one’s own value in a first price auction would only guarantee a payoff of zero. Therefore, in general first price auctions, strategic bidders will not bid their true private values. On the other hand, for a standard auction where the ask price is equal to the second highest bid, the strategy \( s_i(v_i) = v_i \) is a weakly dominant strategy for each user. This means that irrespective of what other users do, a user would not receive a better payoff if it did not bid truthfully. This is a good property for an auction to have since each user knows what to do irrespective of what other users do. The definitions and results introduced here are standard in the auctions literature [28]. In the next subsection, we describe the outline of our single-unit auction schemes. The set-up of the multi-unit auction scheme in Section VI is very similar to the set-up of truthful matched auctioning. So we explain the set-up for quantized Vickrey auctions in the corresponding section for ease of description and clarity in conveying the main ideas.

B. Single-unit auction scheme outline

Depending on channel conditions, individual requirements and their strategies, the users fix their bids as \( b_1, \cdots, b_N \), which are all assumed to lie in the interval \([0, 1]\). We assume that there is a two-way channel between each user and the CA, and there is no interference between these channels. Since the CA is typically a base station with high transmit power and unutilized bandwidth that is dedicated to control, we assume that the CA-to-user channels are noiseless. The CA can award spectrum to the highest bidder of each round in one shot if the users could send their bids to the CA with infinite precision. But in our set-up, we consider quantization and noise constraints explicitly. This results in the CA refining its estimate of the highest bid from round to round. Each round is divided into two disjoint intervals: an update-and-allocate period and a spectrum use period. This is depicted in Fig. 1.

During an update-and-allocate period, the users have severely constrained channels connecting them to the CA. So each of those periods is meant to refine the CA’s estimate of the user’s bids while using very limited signaling. We now list the steps that take place in the \( t \)th update-and-allocate period for single-unit auctions.

- At the start of round \( t \), user \( i \) is allowed to send only one bit to the CA, denoted by \( x_i t \). In general, \( x_i t \) is a function of \( b_i \) and all the other information available to the user until round \( t \). Due to noise in the user-to-CA channel, \( x_i t \) is received by the CA as \( \tilde{y}_{i t} \).
- Since the CA does not know the bids, it models them as independent continuous random variables \( \{B_i\}_{i=1}^N \), each uniform over \([0, 1]\).
- Using \( \{\tilde{y}_{i t}, \cdots, \tilde{y}_{N t}\} \), and all the bids received during the previous rounds, the CA estimates each bid and awards spectrum for the corresponding spectrum use period to the user whose bid price estimate is the highest. Ties are broken arbitrarily.
- A spectrum ask price \( a_i \) is fixed by the CA based on its updated bid estimates.
- The CA then sends the first feedback bit \( u_{it} \) to each user \( i \), which is to inform the user whether it was awarded spectrum for the following spectrum use period or not. This is given by

\[
u_{it} = \begin{cases} 
1 & \text{if user } i \text{ won round } t \\
0 & \text{otherwise.}
\end{cases}
\]

We can write this as \( u_{it} = I_i \text{ user } i \text{ won round } t \), where \( I_A \) is the indicator function of event \( A \).
- The second feedback bit sent from the CA to the user is \( z_{it} = \tilde{y}_{it} \). This bit is sent so that all the users can perform the same updates as the CA and compute the CA’s new bid estimate. When users are strategic, the CA has to send a third bit, \( \tilde{y}_{it} \), to enable the users to compute the ask price. Bits sent by the CA are correctly received by the users due to noiseless feedback.
- When users are not strategic, the winner has the option to reject spectrum and pay nothing if the ask price is larger than its bid. If the winner exercises this option, then the CA’s revenue during round \( t \) would be zero, and spectrum will be unused in the following spectrum period.
use period. Otherwise the winner will choose to accept spectrum, and the CA would get a revenue equal to the ask price \( a_t \). In truthful matched auctioning though, winners are not allowed to reject spectrum since they are strategic. Therefore, they always use spectrum, giving a revenue of \( a_t \) to the CA during each round.

- Allowing winners to reject spectrum when they are not strategic is beneficial to the winners. Although it could reduce the revenue of the CA during the initial update rounds, we prove that the revenue converges to a price close to the maximum bid price in probability as the number of update rounds increases. Not allowing winners to reject spectrum in truthful matched auctioning tackles the problem of strategic bidders at the cost of having to sometimes pay a price larger than their bid. But we will see using simulations that as the number of update rounds increases, the probability of winners paying an amount smaller than their bid converges to one.

- Subsequent to the corresponding spectrum use period, the CA gets back control of the spectrum and the users will send \( x_{i,t+1} \), just like in the previous round. This procedure continues as long as the CA has a unit of spectrum to auction. The steps in one update-and-allocate period for single-unit auctions are illustrated in Fig. 2. In this section, we have left out the exact equations that are used by each scheme to compute \( x_{i,t} \) and \( a_t \). These will be addressed in the corresponding sections. We will also address the computation of \( \hat{y}_{i,t} \) in Section V on truthful matched auctions.

In practice, the final payments can be made to the CA at the end of the auction. When users are strategic, the CA has to remember only the winner information and collect the corresponding ask price from the winners of each round. When users are non-strategic, we additionally assume that the winners remember their usage information and pay the CA truthfully.

Fig. 2. Update period outline for single-unit auctions: Users (the five devices in black) send 1 bit each to the CA (the base station in green). The bit can be a function of the user’s bid and all the other information available to the user. The actual form of \( x_{i,t} \) depends on the specific scheme. CA updates the bid and ask price estimates. It then sends the received bit and winner information back to the users. The third bit \( \hat{y}_{i,t} \), highlighted in red, is only required to convey the ask price to strategic users in truthful matched auctioning. This bit is not needed in single-unit auctions with non-strategic bidders.

While the CA-to-user channels are assumed to be noiseless, we model the user-to-CA channels as non-interfering binary symmetric channels (BSC). If the input to a BSC is 1, then it will be received erroneously as 0 with probability \( p \). Similarly, an input of 0 will be received as 1 with probability \( 1-p \). BSC is used to denote a BSC with cross-over probability \( p \).

### III. Quantized Auction Example: Unmatched Auction

As a motivating example for quantized auctions and as a way to compare our schemes with the schemes in the literature that assume noiseless user-to-CA transmission, we now propose a quantized version of single unit auctions with non-strategic users. In this simple quantized auction, user \( i \) sends one bit per update-and-allocate period without using the second feedback bit \( z_{i,t} \) it has received from the CA. The sequence of bits is obtained by converting the bit into its binary equivalent. For example, if user \( i \)'s bid is 0.76, then the binary equivalent is 0.110001 \( \cdots \). The sequence of bits obtained from the binary equivalent forms the sequence \( \{ x_{i1}, x_{i2}, \ldots \} \). Therefore, the first three transmissions from user \( i \) would be 1, 1, 0. The CA’s estimate of the bid prices at each update round is obtained by converting the binary sequence it has received from each user until that point, into the corresponding decimal fraction. For example, if the transmitted sequence 1, 1, 0 is received with an erroneous third bit as 1, 1, 1, then the CA’s estimate of the bid after the third reception would be 1 \( \times 2^{-1} + 1 \times 2^{-2} + 1 \times 2^{-3} = 0.875 \). In any round \( t \), the CA awards spectrum to the user with the highest estimate and sets this estimate as the ask price for that round. It then sends the two feedback bits \( u_{i,t} \) and \( z_{i,t} \) to inform the users about the result of the \( t^{th} \) update-and-allocate round and about the CA’s estimate of its bid price. Since the users know \( y_{i,t} \), the winner also knows the ask price set by the CA. Based on this information, the winner chooses either to accept or reject spectrum for the \( t^{th} \) spectrum use period. The winners can be given this choice since we assume that the users are non-strategic.

When there is noise in the user-to-CA channel, this scheme would, on the average, result in sub-optimal allocations even after many update rounds. In other words, on the average, the CA is not guaranteed to allocate spectrum to the highest bidder, as illustrated in Section VIII-A. In order to overcome this, one approach would be to view this as an open-loop channel coding problem and use sophisticated channel coding schemes to quantize the bids so that the CA’s estimate is arbitrarily close to the actual bid. Although there exist techniques by which users can encode their bids to be received by the CA with arbitrarily low error probabilities, such techniques would require large block length open-loop codes that can cause severe overhead, resulting in the CA taking many rounds to converge to the optimal allocation. Such open-loop schemes also do not scale well with multi-unit auctions and with time-varying bids.

### IV. Matched Auction Scheme

For single-unit auctions with non-strategic users and constant bid prices, an alternative approach to unmatched auctioning is to exploit the noiseless feedback from the CA to the users. In this section, we devise such a scheme, where as the number of rounds increases, the probability that the
CA allocates spectrum to the highest bidder approaches one and the CA’s revenue converges to a price that is close to the maximum bid price.

**Posterior matching and channel output feedback problems:** Since this scheme is closely related to the iterative scheme in Horstein’s paper [27], we discuss it briefly. Horstein’s scheme is a specific case of the more general framework of posterior matching. It achieves the point-to-point capacity for a BSC with noiseless feedback. In this scheme, the transmitter represents the sequence it wants to transmit using a *message point*. The receiver knows the prior distribution of the message point, which is continuous and uniform over the interval $[0, 1]$. The transmitter knows that the receiver’s prior model for the distribution of the message point is uniform over $[0, 1]$. Both the transmitter and the receiver maintain and update the posterior distribution of the message point conditioned on all the bits observed at the receiver. In each round, the transmitter tells the receiver whether or not the message point is below the posterior median. The receiver uses this bit to update its posterior distribution and sends the same bit back to the transmitter. The feedback bit is received error-free because of the noiseless feedback. Therefore, the transmitter can perform the same posterior update as the receiver. In the next round, the transmitter sends one bit according to the same rule as in the previous round. As the number of rounds increases, the receiver becomes more and more confident about its estimate of the message point, and the posterior cumulative distribution of the message point converges to a unit step at the actual message point.

In our scheme, the $N$ bid prices act as $N$ message points and are represented as random variables $\{B_i\}_{i=1}^N$. The users act as transmitters, while the CA acts as the receiver and maintains posterior distributions for each of these bid prices. At the beginning of round $t$, the users inform the CA whether their bids are at least as large as the posterior median $M_{it}$ at the beginning of that round:

$$x_{it} = \begin{cases} 1 & \text{if } b_i \geq M_{it} \\ 0 & \text{otherwise.} \end{cases} \quad (2)$$

Each of these bits passes through a BSC, and is received by the CA as $y_{it}$. Depending on the information it receives from the users, the CA updates its distribution of $\{B_i\}_{i=1}^N$ and its estimate of each bid, which is set to be the updated posterior median $M_{i,t+1}$. The winner for the $t^{th}$ round is picked using $\arg\max_i \{M_{i,t+1}\}$, and the ask price is set to be $a_t = \max_i \{M_{i,t+1}\} - h$, where $h$ is a small positive number. The number $h$ specifies how much less than the highest bid the CA will asymptotically get in revenue. The larger it is, the better it insures that the winner does not reject spectrum as $t$ increases, resulting in a faster convergence of the CA’s revenue. The role of $h$ would become clear in the proof of Proposition 2. The CA then sends $u_{it}$, identical to the definition in (1) and $z_{it} = y_{it}$ so that all the users can perform the same update as the CA and compute the updated posterior distribution. The winner then decides whether or not to use spectrum during the corresponding spectrum use period, based on its bid price and the new ask price.

After the following spectrum use period, the users reply back to the CA in the same fashion as in the previous round using (2) and the process continues as long as the CA is willing to sell spectrum. These steps are illustrated in Fig. 3. In all our auction schemes, the payment to the CA is settled at the end of all update-and-allocate rounds as outlined in Section II-B.

### A. Algorithm description and pseudocode

The pseudocode for the matched auction scheme is in Fig. 4, which calls to functions ONEWORLDUSER and ONEROUNDCA, both of which are shown in Fig. 5. Function ONEWORLDUSER is executed by each user $i$ in every update-and-allocate round $t$, to mimic the CA’s posterior median calculations and determine $x_{it}$ according to (2). Moreover, if spectrum has been awarded to the user, this function decides whether or not to use the spectrum based on whether or not its bid is above $M_{it} - h$. Note that the posterior distribution of user $i$’s bid and the particular realization of its median calculated by the CA, are denoted by $F_{it}$ and $m_{it}$, respectively; whereas their replicas calculated and maintained by user $i$ are denoted, respectively, $F_{it}^u$ and $m_{it}^u$.

Function ONEROUNDCA is executed by the CA in every update-and-allocate round $t$, in order to update the posterior distribution of each user’s bid, determine the auction winner, and calculate the two bits to be sent back to each user. Before getting any information from the users, the CA’s initial estimate of the $t^{th}$ user’s bid is the prior median of $B_i$, i.e., $1/2$. Both functions ONEWORLDUSER and ONEROUNDCA use the function UPDATEDISTRIBUTION shown in Fig. 6. This function computes the update of the posterior distribution of user $i$’s bid, based on the latest bit received by the CA from user $i$. The update equations used by this function are given in the next subsection.

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![Fig. 4. Overall flow of the auction procedure.](image)
of the continuous and the discrete cases. Specifically, we assume \( \Delta \) that the discretization interval for the bid prices is more practical scenario where prices are discrete. We therefore variables. However, our simulations in Section VIII reflect a channel noise is independent of the bid prices.

Note that, in the continuous case, \( \Delta \) below \( m \) from user \( i \) at the beginning of round \( t \) are received by the CA as \( (y_{i1}, \ldots, y_{it}) = Y_{i,t} \). We denote the posterior distribution of \( B_i \), conditioned on \( Y_{i,t} \), using

\[
F_{it}(b) = P\{B_i \leq b | Y_{i,t}\}. 
\]

As stated earlier, we denote the posterior median of \( B_i \) at the beginning of round \( t \) using \( M_{it} \) defined as

\[
M_{it} = \text{Median}(B_i | Y_{i,t-1}).
\]

\( M_{it} \) is a random variable since it is a function of the random vector \( Y_{i,t-1} \). We denote by \( m_{it} \) the particular realization of \( M_{it} \) computed by the CA from a specific observation of \( Y_{i,t-1} \). We assume that each user-to-CA channel is a BSC\(_p\), that the channel noise is temporally independent, and that the channel noise is independent of the bid prices.

Our model and convergence analysis in Section IV-C are based on assuming that prices are continuous random variables. However, our simulations in Section VIII reflect a more practical scenario where prices are discrete. We therefore derive posterior update equations that are applicable to both the continuous and the discrete cases. Specifically, we assume that the discretization interval for the bid prices is \( \Delta \). In the continuous case, \( \Delta = 0 \). In the discrete case, \( \Delta > 0 \), and the bids are integer multiples of \( \Delta \), with probability 1. We define

\[
m_{it} = m_{it} - \Delta.
\]

Note that, in the continuous case, \( m_{it} = m_{it} \). In the discrete case, \( m_{it} \) is equal to the highest possible bid price which is below \( m_{it} \).

Proposition 1. The equations needed to calculate the posterior distribution \( F_{it} \) from \( F_{i,t-1} \) and the bit \( y_{it} \) received from user \( i \) in round \( t \), are as follows.

Case 1: \( b < m_{it} \) and \( y_{it} = 1 \)

\[
F_{it}(b) = \frac{p F_{i,t-1}(b)}{1 - p - (1 - 2p) F_{i,t-1}(m_{it})}.
\]

Case 2: \( b < m_{it} \) and \( y_{it} = 0 \)

\[
F_{it}(b) = \frac{(1 - p) F_{i,t-1}(b)}{p + (1 - 2p) F_{i,t-1}(m_{it})}.
\]

Case 3: \( b \geq m_{it} \) and \( y_{it} = 1 \)

\[
F_{it}(b) = \frac{(1 - p) F_{i,t-1}(b) + (2p - 1) F_{i,t-1}(m_{it})}{1 - p + (2p - 1) F_{i,t-1}(m_{it})}.
\]

Case 4: \( b \geq m_{it} \) and \( y_{it} = 0 \)

\[
F_{it}(b) = \frac{p F_{i,t-1}(b) + (1 - 2p) F_{i,t-1}(m_{it})}{p + (1 - 2p) F_{i,t-1}(m_{it})}.
\]

Proof with a very minor modification in the notation is in the appendix of our earlier paper [1], and in [29].

The posterior update procedure is implemented in the function \( \text{UPDATEDISTRIBUTION}(F_{i,t-1}, y_{it}) \) shown in Fig. 6. Its inputs are the posterior distribution \( F_{i,t-1} \) after round \( t - 1 \) and the bit \( y_{it} \) sent by user \( i \) to the CA at the beginning of round \( t \). Its output is the updated posterior \( F_{it} \).

C. Convergence and asymptotic optimality

Lemma 1. Under matched auctioning, the posterior median of each bid price converges to the respective bid price in probability.

Proof: This result is based on the proof of Theorem 1 on page 3 of [30], where it is shown that under posterior matching,
the posterior distribution of the message point computed by the receiver (in our case, the CA) converges in probability to the unit step at the actual message point sent by the transmitter (in our case, the $i$th user). Using the notation from (3) for the CA's posterior distribution of the $i$th user's bid, we have the following for any $\omega > 0$ and $\delta > 0$:

$$
P\{|F_{it}(B_i + \delta) - F_{it}(B_i - \delta) - 1| < \omega\} \rightarrow 1,$$

where the probability is evaluated using the joint distribution of CA's prior model for $B_i$ and the channel outputs. Using $\omega = 1/2$, we have that for any $\delta > 0$ there exists $t_0 > 0$ such that for all $t > t_0$,

$$
P\{|F_{it}(B_i + \delta) - F_{it}(B_i - \delta) - 1| < 1/2\} > 0.$$

Equivalently,

$$
P\{1/2 < F_{it}(B_i + \delta) - F_{it}(B_i - \delta) < 3/2\} > 0.
$$

This implies that for any $\delta > 0$ there exists $t_0 > 0$ such that for all $t > t_0$,

$$
P\{F_{it}(B_i + \delta) > 1/2 + F_{it}(B_i - \delta)\} > 0. \quad (8)
$$

Since $F_{it}$ is a cumulative probability distribution, both $F_{it}(B_i + \delta)$ and $F_{it}(B_i - \delta)$ must be between 0 and 1 with probability 1. Therefore, it follows from (8) that, for all $t > t_0$, $F_{it}(B_i - \delta) < 1/2$ and $F_{it}(B_i + \delta) > 1/2$ with probability 1. To see this, suppose that there is a non-zero probability that $F_{it}(B_i - \delta) \geq 1/2$ for some value $t > t_0$. Then (8) would imply a non-zero probability for $F_{it}(B_i + \delta) > 1$, which is a contradiction. A similar argument shows that $F_{it}(B_i + \delta) > 1/2$ with probability 1.

But the fact that $M_{i,t+1}$ is the median of $F_{it}$ means that $F_{it}(M_{i,t+1}) = 1/2$. So, we get:

$$
F_{it}(B_i - \delta) < F_{it}(M_{i,t+1}) < F_{it}(B_i + \delta),
$$

for all $t > t_0$, with probability 1. This implies

$$
B_i - \delta < M_{i,t+1} < B_i + \delta,
$$

with probability 1 and

$$
P\{|M_{i,t+1} - B_i| < \delta\} = 1,
$$

for all $t > t_0$. Since such $t_0$ exists for any $\delta$, this shows that $M_{it}$ converges to $B_i$ in probability as $t \to \infty$, completing our proof of Lemma 1.

**Proposition 2.** For any $h > 0$, the probability of allocating spectrum to the highest bidder converges to one and the CA’s revenue converges to $B_{i(N)} - h$ in probability, where $B_{i(N)}$ is the largest of the $N$ bids.

**Proof:** We showed in Lemma 1 that the posterior median $M_{ij}$ will eventually be within $\delta$ of the bid price $B_i$ with probability 1, for any $\delta$. Suppose that, for two users $i$ and $j$, we have the following realizations of the bid prices: $B_i = b_i$ and $B_j = b_j$, and $b_i > b_j$. Then, applying Lemma 1 with $\delta = (b_i - b_j)/2$, we see that there exists $t_{ij}$ such that for any $t > t_{ij}$, the posterior median $M_{it}$ is larger than the posterior median $M_{jt}$ with probability 1. Now for a particular realization of the bid prices, let $k$ be the index of the maximum bid price, and let

$$
t_1 = \max_{j: j \neq k} \{t_{kj}\}.
$$

(Without loss of generality, we are assuming here that only one bidder has the maximum bid.) Then for any $t > t_1$, the posterior median $M_{kj}$ corresponding to the maximum bid will be larger than any other posterior median, with probability 1. Therefore, for any $t > t_1$, spectrum will be awarded to the highest bidder with probability 1, and the CA’s revenue will only depend on the posterior median of the highest bidder.\(^2\)

We denote the highest bid and the corresponding median after the $i$th update using $b_{i(N)}$ and $M_{i,t+1}$ respectively. Recall that we set the ask price to $\max\{M_{i,t+1} - h\}$, where $h > 0$. From Lemma 1 and the preceding paragraph, for any $\delta > 0$, we have that there exists $t_2 > t_1$ such that for all $t > t_2$,

$$
P\{b_{i(N)} - h - \delta < M_{i,t+1} < h < b_{i(N)} - h + \delta\} = 1.
$$

Case (i): If $\delta \leq h$, for all $t > t_2$,

$$
P\{b_{i(N)} - h - \delta < \text{Ask price at time } t < b_{i(N)} - h + \delta\} = 1
$$

Since the ask price is smaller than the maximum bid, this is equivalent to

$$
P\{b_{i(N)} - h - \delta < \text{Revenue at time } t < b_{i(N)} - h + \delta\} = 1.
$$

For $\delta = h$, let the corresponding time $t_2$ be $t_h$.

Case (ii): If $\delta > h$,

$$
P\{b_{i(N)} - h - \delta < \text{Revenue at time } t < b_{i(N)} - h + \delta\} \geq P\{b_{i(N)} - 2h < \text{Revenue at time } t < b_{i(N)}\}.
$$

But if $t > t_h$, then

$$
P\{b_{i(N)} - 2h < \text{Revenue at time } t < b_{i(N)}\} = 1.
$$

Therefore, for this case, we can pick any $t_2 > t_h$. Combining these two cases, we have that revenue at time $t$ converges to $b_{i(N)} - h$ in probability, where all the probabilities are computed conditioned on a realization of bids. Since this is true for any realization of the bid prices, we can remove the conditioning on the bids to obtain that revenue at time $t$ converges to $b_{i(N)} - h$ in probability, where this probability is over the joint distribution of bids and channel realizations. The last operation, where we exchange the integral with respect to the joint density of the bids and the limit on $t$, is possible due to

\(^2\)It must be noted here that $t_1$ will depend on the particular realization of the bid prices: if two largest bids are very close, then it would take a large $t_1$ for their respective posterior medians to get ordered correctly with probability 1. On the other hand, if two largest bids are very close, then awarding spectrum to the second-highest bidder would be nearly optimal for the CA.
the dominated convergence theorem [31]. Although $h$ is an arbitrarily small positive number, a smaller value of $h$ would result in a larger number of rounds for the CA’s revenue to converge to $B_{(N)} - h$. In other words, the more the CA is willing to give up in revenue compared to the highest bid, the more quickly it’s revenue would converge to $B_{(N)} - h$. 

V. SINGLE-UNIT AUCTIONS WITH STRATEGIC USERS: TRUEFUL MATCHED AUCTION

In our exposition so far, we have assumed that users are not strategic. Strategic users act rationally and aim to maximize their payoff. So using matched auctioning for strategic users may lead to inefficient allocations, where the user who values spectrum the most is not allocated the resource even after many update-and-allocate rounds. In this section, we address the issues posed by strategic bidders by extending the current matched auction set-up to a truthful matched auction. We know from [28] that for a standard auction where the winner pays the second highest bid, bidding truthfully is a weakly dominant strategy for strategic users who want to maximize their payoff. Truthful matched auctioning tries to replicate a second price sealed bid auction under the current set-up. To recollect, in the matched auction setup, the CA maintains posterior distributions of the bids of each user. In each round, the CA awards spectrum to the user with the highest posterior median and sets the ask price close to the highest posterior median, which the winner can compute.

In truthful matched auctioning, identifying the highest bidder works in the same way as in matched auctioning. Additionally, the CA and all the users maintain an ask price distribution $(A_i)$, whose median $(a_i)$ is taken to be the ask price for that round. The CA has to send the bits it receives from the second highest bidder back to the users, so that they can compute the ask price from the posterior distribution of the second highest bid price. But at the outset, the CA does not know who the two highest bidders are. To overcome this difficulty, the CA treats the second highest posterior median as the message point at each step. It sends one additional bit to each user, denoted using $y_{it}$, which is equal to 1 if the second highest posterior median is larger than the median of the ask price distribution and 0 otherwise. To recall, this is the same $y_{it}$ introduced in Section II-B and illustrated in Fig. 2.

$$y_{it} = I_{\text{Second highest posterior median} > \text{Median of ask distribution}} \quad (9)$$

Posterior updates on the ask distribution are carried out by the CA and by all the users as if this bit has been received from a virtual user through a BSC$_p$ in each round. So, the virtual user sends the bit $y_{it}$ according to the position of a message point—which is equal to the second highest posterior median at that round—and a posterior distribution—which is equal to the distribution of the ask price. The update equations are the same as given in Proposition 1, where we replace $y_{it}, m_{it}, m'_{it}, F_{i,t-1}, F_{it}$ with $y_{it}, a_{it}, a'_{it}, A_{i,t-1}, A_{i,t}$ respectively. As in the case of the bid distributions, the ask price distribution is assumed to have a uniform prior over $[0, 1]$. In Section VIII-B, we show by simulation that in truthful matched auctioning, the revenue of the CA tends to the second highest bid price in probability.

We have previously mentioned in Section II that strategic users also pose the problem of using spectrum and claiming to have rejected it. This could happen when the users are base stations that do not need the help of the CA in order to communicate during the spectrum use period. In this section, we avoid this problem by not allowing winners to reject spectrum. This is to assume that winners are always able to pay the ask price, even if it is larger than their private values. Although winners may initially have to pay a price more than their private values, we shall see using simulations that as the number of update-and-allocate rounds increases, the winner’s payoff converges to the true theoretical payoff in probability. Since this replicates a second price sealed bid auction, the payoff of the highest bidder converges in probability to the absolute difference between the two highest bids. The payoff of the other bidders converges in probability to zero.

VI. MULTI-UNIT AUCTIONS WITH STRATEGIC USERS: QUANTIZED VICKREY AUCTIONS

In current wireless standards, there are hard constraints on the number of bits per CQI (channel quality information). In general, if there are $K$ bits per CQI, then we can extend the preceding one-bit truthful matched auction scheme into a $K$-bit scheme to simultaneously auction $K$ sub-channels. The usual assumption in multi-unit auctions is that the units are all identical, and they have diminishing marginal values for every user. A user who wants to bid for $K$ sub-carriers would, instead of having a single value, have a value profile given by $V_i = (v_{i1}, \cdots, v_{iK})$ such that $v_{ik} \geq v_{ik+1}$. The components of the vector $V_i$ specify marginal values, which means user $i$’s value for one unit of spectrum is $v_{i1}$. For two units, it is $v_{i1} + v_{i2}$ and so on. We assume that the $j$th value profile is jointly distributed as the order statistics of $K$ random variables that are i.i.d. uniform over $[0, 1]$.

A strategy in this case is $(s_{i1}(v_{i1}), \cdots, s_{iK}(v_{iK})) = (b_{i1}, \cdots, b_{iK})$, which maps the value vector into a bid vector. The components of the bid vector are equal to marginal bid prices. The multi-unit analogue of a second price auction is called Vickrey auction, where the top $K$ bids are awarded one unit of spectrum each, and if user $i$ is awarded $k_i$ units of spectrum, then it is charged an amount equal to the $k_i$ highest losing bids excluding its own bids. The payoff of the user $i$ is therefore its value for $k_i$ units minus the ask price that it is charged. For example, if there are 4 units of spectrum and 4 users with bid profiles (21, 15, 5, 3), (32, 18, 15, 10), (25, 23, 15, 12) and (30, 20, 10, 8), then the top 4 bids are 32, 30, 25, 23. So user 1 gets zero units, user 2 gets one unit, user 3 gets two units and user 4 gets one unit. In this example, user 1 gets nothing and pays nothing. User 2 pays 21, user 3 pays 21+20 and user 4 pays 21 as per the payment rules stated before. The payoffs of the users are respectively equal to 0, 11, 7 and 9. It can be shown that for a Vickrey auction, the truthful strategy given by $(s_{i1}(v_{i1}), \cdots, s_{iK}(v_{iK})) = (v_{i1}, \cdots, v_{iK})$ is weakly dominant [28].

Quantized Vickrey auctions can be implemented along the same lines as truthful matched auctions, but with a few more modifications. The first difference here is that for each user,
posterior updates are carried out on each of the $K$ marginal bids, which are distributed apriori as the order statistics of $K$ independent and uniform random variables over $[0,1]$. Secondly, each user has a separate ask price that can take values in $[0,K]$. So each user maintains and updates a separate ask price distribution that is apriori uniform over $[0,K]$. Thirdly, in each round, the $i^{th}$ user sends the $K$-bit vector $x_{it}$, whose components are calculated using the corresponding marginal bid and the corresponding posterior median. More explicitly, the $k^{th}$ component of $x_{it}$ is equal to

$$I_{k} \text{ marginal bid of user } i > \text{ Posterior median of } k^{th} \text{ marginal bid of user } i.$$ These $K$ bits are used to update the $K$ marginal bid posteriors of user $i$. Fourthly, the CA sends $2K + 1$ feedback bits to each user. The first $K$ of these bits are equal to $y_{it}$, whose components are the $K$ received bits so that the users can perform the same updates as the CA. The next $K$ bits are denoted using $u_{it}$. The $k^{th}$ component of $u_{it}$ denotes whether the $i^{th}$ user won the $k^{th}$ unit of spectrum or not. The updated bid price estimates are used to decide the winners and the ask price for that spectrum use period, as per the rules of Vickrey auction outlined earlier. The last bit of feedback ($\tilde{y}_{it}$) is used to convey the updated ask distribution to the user.

$$\tilde{y}_{it} = I\text{User } i^{'s} \text{ ask price in round } t > \text{Median of user } i^{'s} \text{ ask distribution in round } t$$ (10)

While updating the ask price posterior, this bit is again treated by the user and by the CA as if it has been received from a virtual user through a BSC $p$. Apart from these four changes, the update procedure and update equations are identical to the truthful single-unit auctions. In Section VIII-B, we show by simulation that in our implementation of quantized Vickrey auctions, the revenue of the CA and the payoffs of the users tend to the true theoretical revenue and the true payoff in probability. This in turn shows that asymptotically, it is weakly dominant for each user to truthfully reveal its value profile.

VII. MATCHED AUCTIONING WITH TIME-VARYING BIDS

In this section, we return to the matched auctioning algorithm with non-strategic users, and extend it for time-varying bids. When the bids are allowed to vary with time, it is possible under matched auctioning, that the CA becomes overconfident about its estimates of the bid prices. By this we mean that when a user’s bid changes after remaining constant for many update-and-allocate rounds, the posterior distribution of the bid would be very close to the unit step at the previous price. Consequently, the corrections sent by the user would not affect the CA’s estimate of the price significantly. This would result in the matched auctioning algorithm tracking bid prices very slowly, or completely failing to track them. So, the CA’s revenue could be substantially lower than the highest bid. In this section, the system set-up and the auction scheme are the same as in matched auctioning, except for the bid-drift model and a significant modification to the posterior update step in Section IV-B.

A. Bid-drift model

For each user $i$, bids are represented as independent discrete-time random processes $B_{i}(t)$, and an additive model is used to represent their dynamics.

$$B_{i}(t+1) = \begin{cases} \min \{ \max \{ B_{i}(t) + n_{i}(t+1), 0 \}, 1 \} & \text{w. p. } q \\ B_{i}(t) & \text{w. p. } 1 - q \end{cases}$$ (11)

In (11), $B_{i}(1)$ is uniformly distributed in $[0,1]$, $n_{i}(t+1)$ is independently uniform over a small interval $[-\epsilon, \epsilon]$ and $q$ is the probability that the bid price changes in the next round. So for any update round $t$ and user $i$, $P\{i^{th} \text{ bid changes at } t+1 \} = q$, and $q$ is assumed to be constant and identical for all the users.

B. Posterior update algorithm for time-varying bids

After each posterior distribution update, if the posterior distribution of any bid price is sufficiently close to the unit step function at the respective posterior median, then the CA approximates the distribution as another distribution that is more spread-out than the unit step function. Therefore, our main idea to enable the CA to track moving bids is to perform posterior updates while not allowing the individual posterior distributions to collapse into the unit step function. The distribution that we use for approximation must be such that most of the corresponding density is concentrated about the posterior median but at the same time, all values in $[0,1]$ have non-zero density. Although the approximation comes at the cost of the CA not knowing exactly what the bid price is, we show by simulation that this is effective in achieving revenues that are close to the maximum bid and outperforms matched auctioning when the bids are time-varying.

As an approximation of the unit step at $b_{0} \in [0,1]$, we take a cumulative distribution function $F(b; b_{0}, \lambda, \mu)$ with median $b_{0}$. The corresponding probability density is denoted using $f(b; b_{0}, \lambda, \mu)$. The shape parameters of the distribution, $0 < \lambda \ll 1$ and $0 < \mu \ll 1$, control how close $F$ is to the unit step at $b_{0}$. We use a piecewise linear $F$, whose shape is illustrated in Fig. 7 for a few parameter values. The exact equations for the three cases depicted in Fig. 7 are shown in (12), (13) and (14).

![Fig. 7. Shape of $F(b; b_{0}, \lambda, \mu)$ for 3 possible locations of $b_{0}$.](image)

Case 1: If $b_{0} - \frac{\mu}{2} > 0$ and $b_{0} + \frac{\mu}{2} < 1$, then $F(b; b_{0}, \mu, \lambda) = \begin{cases} \frac{\lambda}{b_{0} - b_{0}} b & \text{if } b \in (b_{0} - \frac{\mu}{2}, b_{0} + \frac{\mu}{2}] \\ (b - b_{0} + \frac{\mu}{2}) + \frac{1 - 2\lambda}{\mu} + \lambda & \text{if } b \in (b_{0} - \frac{\mu}{2}, b_{0} + \frac{\mu}{2}] \\ \frac{\lambda}{1 - b_{0} - \frac{\mu}{2}} (b - b_{0} + \frac{\mu}{2}) + 1 - \lambda & \text{if } b \in (b_{0} + \frac{\mu}{2}, 1). \end{cases}$ (12)
Fig. 8. Posterior updates adjusted for bid-drift.

Case 2: If \( b_0 - \frac{\mu}{2} < 0 \), then \( F(\mu; b_0, \mu, \lambda) = \)
\[
\begin{align*}
\frac{b}{b_0} & \quad \text{if } b \in (0, b_0] \\
\frac{(b - b_0) - \frac{2\lambda}{\mu} + \frac{1}{2}}{b_0 - \frac{2\lambda}{\mu}} & \quad \text{if } b \in (b_0, b_0 + \frac{\mu}{2}] \\
\frac{2(b - b_0 - \frac{\lambda}{\mu}) + 1 - \lambda}{2(b_0 - \lambda)} & \quad \text{if } b \in (b_0 + \frac{\mu}{2}, 1).
\end{align*}
\] (13)

Case 3: If \( b_0 + \frac{\mu}{2} > 1 \), then \( F(\mu; b_0, \mu, \lambda) = \)
\[
\begin{align*}
\frac{\lambda + b}{\lambda} & \quad \text{if } b \in (0, b_0 - \frac{\mu}{2}] \\
\frac{(b - b_0 + \frac{\mu}{2}) - \frac{2\lambda}{\mu} + \frac{1}{2}}{b_0 - \frac{2\lambda}{\mu}} & \quad \text{if } b \in (b_0 - \frac{\mu}{2}, b_0] \\
\frac{b - b_0}{2(1 - b_0 - \lambda)} & \quad \text{if } b \in (b_0, 1).
\end{align*}
\] (14)

We assume that at the end of round \( t \), the posterior density of \( B_t \) is \( f_{st} \), with median \( m_t \). For a threshold \( \theta > 0 \), if \( D(f_{st}(b)||f(m_t, \lambda, \mu)) < \theta \), then we approximate the posterior distribution using \( F(m_t, \lambda, \mu) \). As a measure of divergence \( (D) \) we use the Bhattacharyya distance [32]. If \( f_1(b) \) and \( f_2(b) \) are probability density functions of continuous random variables, then the Bhattacharyya distance between them is given by
\[
D(f_1(b)||f_2(b)) = -\log \left( \int \sqrt{f_1(b)f_2(b)}db \right)
\] (15)

In the case of discrete probability mass functions \( p_1 \) and \( p_2 \), the Bhattacharyya distance between the two mass functions is
\[
D(p_1(b)||p_2(b)) = -\log \left( \sum_b \sqrt{p_1(b)p_2(b)} \right)
\] (16)

If we use \( \text{UPDATETrack} \) for posterior updates, it is possible for the posterior median to be substantially larger than the bid price even after many update-and-allocate rounds have been completed. This means that if we set the ask price very close to the posterior median of the winner, then the winner could reject spectrum even after many rounds. Therefore, the CA sets the ask price to be equal to \( \max_i \{ M_{t+1} \} - \mu \), where \( \mu \) is the same as shown in Fig. 7. In the following round, the \( i \)th user replies back to the CA, knowing that the CA’s estimate of the posterior median and consequently the ask price, is based on this modified procedure. Therefore, the ability to track moving bid prices comes at the cost of setting the ask price to a value that is lower than in the case of constant bid prices. But in the next section, we see that despite the approximation and setting the ask price low, the revenue of the CA is still very close to the ideal case of perfect tracking. Therefore, to adjust for tracking, we simply replace \( \text{UPDATEDistribution} \) in Figs. 4 and 5 with \( \text{UPDATETrack} \) shown in Fig. 8 and use \( \mu \) in place of \( h \) while setting the ask price.

Fig. 9. Convergence of revenue for matched auctioning with \( N = 10 \).

Fig. 10. Average revenue of unmatched auctioning with error bars for different values of \( N \) and \( p \).

VIII. SIMULATION SET-UP AND RESULTS

In Section IV-B, we have derived recurrence relations for updating the posterior distribution of bid prices. But deriving these updates in closed form is difficult even for simple prior distributions. In order to circumvent this problem and to account for prices being discrete, we discretize the \([0,1]\) interval such that bid prices are integer multiples of \( \Delta \).

A. Convergence of matched auctioning

Fig. 9 shows the convergence of the revenue to \( B(N) - \hat{h} \), with \( \Delta = 10^{-5} \) and \( h = 10^{-3} \). Here again, \( B(N) \) is used to denote the maximum of the \( N \) bids. We show for a few values of \( \delta \), that \( P\{|\text{Revenue at time } t - B(N) + h| < \delta \} \rightarrow 1 \), where probabilities are estimated as empirical probabilities over \( R = 1000 \) independent joint realizations of bid prices and channel outputs. As opposed to this behavior, we see that the mean revenue for our first scheme of unmatched auctioning explained in Section III is significantly smaller than the mean maximum bid. This is shown in Fig. 10 along with standard error bars. The length of the error bars in each round is equal to \( 2\hat{\sigma}/\sqrt{R} \), where \( \hat{\sigma} \) is the estimated standard deviation of the revenue in that particular round, and \( R = 10^4 \) is the number of Monte-Carlo rounds over which the averaging was performed.

B. Convergence of auctions with strategic users

From Sections V and VI, we can see that truthful matched auctioning is exactly the same as quantized Vickrey auctions.
for $K=1$. We show by simulation the convergence properties of quantized Vickrey auctions for 10 users and $K=1$ or $K=4$ units. The left panel of Fig. 11 illustrates the convergence of the CA’s revenue to the true theoretical revenue in probability. Unlike matched auctioning where all the probabilities start very close to zero, we sometimes have non-zero probabilities starting at the very first round since in Vickrey auctions, we do not allow winners to reject spectrum. We also show that the average user payoff converges to the true theoretical average, where the averaging is done over users. This is depicted in the right panel of Fig. 11. From this figure we infer that asymptotically, quantized Vickrey auctions behave identically to Vickrey auctions. Therefore, as the number of auction rounds increases, it is weakly dominant for the users to reveal their bids truthfully.

C. Comparison between matched auction and matched auction adjusted for bid-drift

When bids are allowed to vary with time according to the model proposed in Section VII-A, we show that the tracking algorithm proposed in Section VII-B performs better than the case when there is no tracking. In order to compare the tracking algorithm with matched auctioning, we compare the efficiency ratio, which is the ratio of the average revenue to the average maximum bid, averaged over the update-and-allocate rounds and then averaged over Monte Carlo rounds. If the CA is able to perfectly track the bids, then we expect this ratio to be 1 for all values of $q$ and $\epsilon$, defined in Section VII-A. But in reality, for $N=5$, we observe the behavior shown in Fig. 12. The left and right panels of this figure depict the ratio as a function of $q$ for $\epsilon=0.01$ and as a function of $\epsilon$ for $q=0.02$, respectively. In these experiments we use $\Delta = 1/5000$, $h = 1/1000$, and for the piecewise linear approximation shown in Fig. 7, we take the thresholds to be $\lambda = 0.005$ and $\mu = 0.005$. We take the threshold on the Bhattacharyya distance $\theta = 0.3$. We see from the left panel of Fig. 12 that with tracking, the ratio is still very close to 1 till around $q = 0.1$. We also observe that the improvement achieved by matched auctioning with tracking is most pronounced when $q$ is between $10^{-3}$ and $10^{-1}$. For very small values of $q$, the bids do not drift too much and the two methods are equally good. In contrast, for very large values of $q$, both methods are unable to track effectively. The right panel of Fig. 12 also shows matched auctioning with tracking performing better than without tracking for $\epsilon > 5 \times 10^{-3}$.

D. Sensitivity of tracking algorithm to parameter settings

In this subsection, we examine the sensitivity of the efficiency ratio with respect to the tracking parameters $\lambda$, $\theta$, and $\mu$. For these simulations, we fix $N = 5$, $p = 0.05$ and sweep over one of the parameters while keeping the other two constant. For the case where we sweep $\lambda$ over the interval $[0.001, 0.01]$, the results show very little sensitivity to the value of $\lambda$ as seen in the left panel of Fig. 13. Similarly, the plot in the middle panel of Fig. 13 does not show much sensitivity to $\theta$. In contrast to these results, while sweeping $\mu$ over $[0.001, 0.01]$, we observe that for small values of $\mu$, the performance is significantly degraded as seen in the right panel of Fig. 13. The reason for this is that low values of $\mu$ result in $\theta^*$ being too close to the unit step, which causes tracking to be very slow. Moreover, small values of $\mu$ would result in more rejections by the winner if the bid price happens to decrease.

IX. CONCLUSION

We have presented a realistic micro-level view of auctions in secondary spectrum markets by explicitly modeling the process by which bidders convey their bids to a clearing authority. Specifically, we have modeled quantization and noise for the first time in this context. In the constant bid scenario, we have proved that our scheme is optimal in the sense of asymptotically maximizing the CA’s revenue. We have also extended the scheme to accommodate strategic bidders, to auction multiple spectrum units among strategic bidders and to track slowly varying bid prices. For the case of strategic users, we develop quantized auction schemes that make truthful bidding a weakly dominant strategy. Our simulations verify the theoretical results that we proved in Section IV-C. Further, the simulations also show the effectiveness of our tracking procedure and its robustness to different parameters of the bid-drift model. Our extensions illustrate the importance of low rate feedback since our schemes scale well in both situations, whereas open-loop schemes would have prohibitive overheads.

REFERENCES


Fig. 12. (Avg. revenue)/(Avg. maximum bid) vs. $q$, for $\epsilon = 0.01$ (left panel), and vs. $\epsilon$, for $q = 0.02$ (right panel)

Fig. 13. (Avg. revenue)/(Avg. maximum bid) vs. $\lambda$ (left panel), $\theta$ (middle panel) and $\mu$ (right panel) for $N = 5$ and $p = 0.05$.


