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Perfect Equilibria in Stochastic Games¹

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Abstract: We examine stochastic games with finite state and action spaces. For the β -discounted case, as well as for the irreducible limiting average case, we show the existence of (trembling hand) perfect equilibria and give characterizations of those equilibria. In the final section we give an example which illustrates that the existence of stationary limiting average equilibria in a non-irreducible stochastic game, does not imply the existence of a perfect limiting average equilibrium.

Keywords: stochastic games, equilibria, trembling hand, perfect

1 Introduction

To keep notations simple we restrict to 2-person stochastic games; the results can easily be extended to N -person games with $N > 2$.

A 2-person stochastic game is a finite set of matrices $\{M_1, M_2, \dots, M_z\}$ corresponding with the set of states $S = \{1, 2, \dots, z\}$. The matrix M_s has size $m_s \times n_s$ and the entry (i, j) of M_s is given as

$$\begin{array}{|l} r^1(s, i, j), r^2(s, i, j) \\ \hline p(s, i, j) \end{array}$$

Here $p(s, i, j) = (p(1|s, i, j), p(2|s, i, j), \dots, p(z|s, i, j)) \in \Delta^z$, $r^1(s, i, j), r^2(s, i, j) \in \mathbf{R}$ and $\Delta^z = \{q \in \mathbf{R}^z : q \geq 0, \sum_{t=1}^z q_t = 1\}$.

The interpretation is as follows: Play can start in any state of S , and transitions occur at stages $n \in \mathbf{N}$. If play is in state s at stage n , then independently and simultaneously player 1 chooses $i \in \{1, 2, \dots, m_s\}$ and player 2 chooses $j \in \{1, 2, \dots, n_s\}$. The triple (s, i, j) determines a direct payoff $r^k(s, i, j)$ to player $k \in \{1, 2\}$ as well as a probability vector $p(s, i, j)$, which meaning is that at stage $n + 1$ play will be in state $t \in S$ with probability $p(t|s, i, j)$. In this way the play proceeds from stage to stage and from state to state.

We allow the players to randomize over their 'pure' actions, which means that in state s player 1 (2) uses some 'mixed' action $x_s \in \Delta^{m_s}$ ($y_s \in \Delta^{n_s}$). Now player 1 (2) will choose action i (j) with probability $x_s(i)$ ($y_s(j)$).

Each player's interest is to maximize his total income, without making binding agreements. To achieve this goal each player uses some strategy: a plan that, at any stage of play, given the current state as well as the history, tells the player what mixed action to use. The history of play at stage n is the sequence $((s_1, i_1, j_1), (s_2, i_2, j_2), \dots, (s_{n-1}, i_{n-1}, j_{n-1}))$ of past triples of states and actions that occurred.

A stationary strategy is a strategy for which only the current state decides what mixed action is to be used, and neither stage nor history play a role. Hence a stationary strategy for player 1 is simply some $x \in X := \prod_{s=1}^z \Delta^{m_s}$; for player 2 it is some $y \in Y := \prod_{s=1}^z \Delta^{n_s}$.

Each player wants to maximize his own ‘expected total income’. In this paper we deal with two interpretations of ‘expected total income’: The β -discounted reward and the limiting average (or undiscounted) reward. Let R_n^k be the random variable denoting the direct payoff to player k at stage n and let $E_{s\sigma\tau}$ denote expectation with respect to starting in s and players using (σ, τ) . Then:

$$\gamma_\beta^k(s, \sigma, \tau) := E_{s\sigma\tau}((1 - \beta) \sum_{n=1}^{\infty} \beta^{n-1} R_n^k)$$

with $\beta \in [0, 1)$, is the β -discounted reward for player k , and

$$\gamma_1^k(s, \sigma, \tau) := E_{s\sigma\tau}(\liminf_{T \rightarrow \infty} \frac{1}{T} \sum_{n=1}^T R_n^k)$$

is the limiting average (or undiscounted) reward for player k .

For $\beta \in [0, 1]$ we write $\gamma_\beta^k(\sigma, \tau)$ for $(\gamma_\beta^k(1, \sigma, \tau), \gamma_\beta^k(2, \sigma, \tau), \dots, \gamma_\beta^k(z, \sigma, \tau))$.

In any stochastic game either both players want to maximize their β -discounted rewards, or they both want to maximize their limiting average rewards.

Clearly, in general a pair of strategies need not exist which maximizes both player 1’s and player 2’s income at the same time. However, if the players have independently selected their strategies to play the game, then each of them will be satisfied if his strategy is a best reply to the strategy of his opponent; for otherwise a better strategy could be chosen. Hence a pair of strategies which are best replies to one another seems to be a reasonable and stable solution for the game; stable since no player has an incentive to deviate unilaterally.

Definition 1.1

A pair of strategies (σ^, τ^*) is a β -discounted equilibrium ($\beta < 1$) or a limiting average equilibrium ($\beta = 1$) if for all strategies σ and τ :*

$$\gamma_\beta^1(\sigma, \tau^*) \leq \gamma_\beta^1(\sigma^*, \tau^*) \text{ and } \gamma_\beta^2(\sigma^*, \tau) \leq \gamma_\beta^2(\sigma^*, \tau^*).$$

In this paper we are mainly concerned with stationary equilibria, i.e. equilibria consisting of stationary strategies. The set of stationary equilibria of a stochastic game Γ will be denoted by $E(\Gamma_\beta)$ for the β -discounted case ($\beta < 1$) as well as for the limiting average case ($\beta = 1$). Here the emphasis is on stationary strategies because such strategies have attractive properties. If one uses a stationary strategy, then one can disregard stage numbers as well as the full history of play at all stages. For any fixed pair of stationary strategies play will take place as a Markov process on the set of states, which implies that the course of play is well-structured. This

Markov structure simplifies computation of rewards a great deal. For non-stationary strategies computation of rewards will often be very hard, even if the number of states is small. Another, more specific reason for focussing on stationary strategies is given in the concluding remarks (Section 4).

For bimatrix games, stochastic games with just one state and only one stage to play, the following theorem is well-known (see Nash, Ref. 1).

Theorem 1.1

For every bimatrix game there is at least one equilibrium.

For bimatrix games Selten (Ref. 2) introduced the perfectness concept. The idea is as follows: Suppose you are playing an equilibrium, but your opponent has a trembling hand and might make small mistakes. Then your strategy should not only be a best reply to his equilibrium strategy, but to certain small perturbations of his strategy as well.

Selten (Ref. 2) introduced the notion of ‘perturbed game’ to investigate such perfect equilibria. We will now extend Selten’s definitions to stochastic games.

Definition 1.2

Let $\Gamma = \{M_1, M_2, \dots, M_z\}$ be a stochastic game, with mixed action space Δ^{m_s} (Δ^{n_s}) for player 1 (2) in state s . For each $s \in S$, let $\varepsilon_s^1 \in \mathbf{R}^{m_s}$ ($\varepsilon_s^2 \in \mathbf{R}^{n_s}$) such that $\varepsilon_s^1(i) > 0$ for all i and $\sum_{i=1}^{m_s} \varepsilon_s^1(i) < 1$ ($\varepsilon_s^2(j) > 0$ for all j and $\sum_{j=1}^{n_s} \varepsilon_s^2(j) < 1$). Such a pair $(\varepsilon^1, \varepsilon^2)$ is called a mistake pair.

The $(\varepsilon^1, \varepsilon^2)$ -perturbed game is defined as the stochastic game $\Gamma(\varepsilon^1, \varepsilon^2)$ given by $\{M_1, M_2, \dots, M_z\}$, but where, for all s player 1 (2) is restricted to mixed actions in $\Delta_{\varepsilon^1}^{m_s} := \{x_s \in \Delta^{m_s} : x_s(i) \geq \varepsilon_s^1(i) \text{ for all } i\}$ (resp. $\Delta_{\varepsilon^2}^{n_s}$ with similar definition).

Let X_{ε^1} (Y_{ε^2}) be the set of stationary strategies of player 1 (2) in $\Gamma(\varepsilon^1, \varepsilon^2)$.

Definition 1.3

A pair of stationary strategies $(x, y) \in X \times Y$ is called perfect if there exists a sequence of mistake pairs $\{(\varepsilon^{1n}, \varepsilon^{2n}) : n \in \mathbf{N}\}$ converging to 0, and a sequence $\{(x^n, y^n) \in E(\Gamma_\beta(\varepsilon^{1n}, \varepsilon^{2n})) : n \in \mathbf{N}\}$ converging to (x, y) .

Thus, for $\beta < 1$ we speak of perfect β -discounted pairs and for $\beta = 1$ we speak of perfect limiting average pairs. The set of perfect equilibria, i.e. perfect pairs which are equilibria, of a stochastic game Γ_β , $\beta \in [0, 1]$, will be denoted by $PE(\Gamma_\beta)$.

Theorem 1.2

For every bimatrix game there is at least one perfect equilibrium.

This theorem has been proved by Selten (Ref. 2).

In Section 3 we show the existence of perfect equilibria for β -discounted stochastic games as well as for irreducible limiting average stochastic games; we also give characterizations of perfect equilibria for these cases. A stochastic game is called irreducible if for all pairs of stationary strategies the related stochastic process on the set of states is an irreducible process. Recall that the idea behind the trembling hand perfect equilibrium is that players not only want to play a best reply to each other's strategy, but want to play a best reply to small perturbations thereof as well. Implicitly this means that the rewards function, β -discounted or limiting average, should be continuous on the set of stationary strategies. The β -discounted rewards function is continuous for any stochastic game while the limiting average rewards function certainly is not. To have continuity of the limiting average rewards function one needs the irreducibility property (or at least that for any pair of stationary strategies there is precisely one ergodic set).

In Section 4 we give an example to illustrate phenomena that may occur in non-irreducible stochastic games.

First however, we state some useful facts about stationary strategies in Section 2.

2 Preliminaries

For $(x, y) \in X \times Y$ and $k \in \{1, 2\}$ the following notations, facts and lemma's will be used in the sequel: For Remarks 2.1 and 2.2 we refer to Kemeny and Snell (Ref. 3), for Lemma 2.1 we refer to Shapley (Ref. 4) and for Lemmas 2.2 and 2.3 we refer to Blackwell (Ref. 5).

Notation 2.1

$r^k(x, y) := (r^k(1, x_1, y_1), r^k(2, x_2, y_2), \dots, r^k(z, x_z, y_z))$, where $r^k(s, x_s, y_s) := \sum_{i=1}^{m_s} \sum_{j=1}^{n_s} x_s(i) r^k(s, i, j) y_s(j)$.

Notation 2.2

$P(x, y)$ is the $z \times z$ -matrix of which entry (s, t) is $p(t|s, x_s, y_s)$, which is given by $p(t|s, x_s, y_s) := \sum_{i=1}^{m_s} \sum_{j=1}^{n_s} x_s(i) p(t|s, i, j) y_s(j)$.

Notation 2.3

$$Q(x, y) := \lim_{T \rightarrow \infty} \frac{1}{T} \sum_{n=1}^T (P(x, y))^n.$$

Remark 2.1

$P(x, y)$ and $Q(x, y)$ are stochastic matrices, i.e. all entries are nonnegative and all row sums are 1.

Remark 2.2

$$Q(x, y)P(x, y) = Q(x, y) = P(x, y)Q(x, y).$$

Lemma 2.1

$\gamma_\beta^k(x, y)$ is the unique solution $v^k(x, y) \in \mathbf{R}^z$ of the equation $v^k(x, y) = (1 - \beta)r^k(x, y) + \beta P(x, y)v^k(x, y)$.

Lemma 2.2

$$\gamma_1^k = Q(x, y)r^k(x, y) = \lim_{\beta \rightarrow 1} \gamma_\beta^k(x, y).$$

Lemma 2.3

There exists a unique $w^k(x, y)$ such that:
 $Q(x, y)w^k(x, y) = 0$ and $\gamma_1^k(x, y) + w^k(x, y) = r^k(x, y) + P(x, y)w^k(x, y)$.

Remark 2.3

If the stochastic game is irreducible, then all entries of $Q(x, y)$ are strictly positive and all rows of $Q(x, y)$ are equal to the unique stationary distribution of the stochastic process with transition matrix $P(x, y)$.

From lemma 2.2 and remark 2.3 one directly obtains:

Remark 2.4

For an irreducible stochastic game $\gamma_1^k(s, x, y) = \gamma_1^k(t, x, y)$ for all $s, t \in S$.

We also introduce the following notations (cf. Lemmas 2.1 and 2.3) which will enable us to relate best strategy choices in the multiple states and infinite horizon problem to best action choices in single state and single stage problems:

Notation 2.4

Let $(x, y) \in X \times Y, s \in S, a \in \Delta^{m_s}$ and $b \in \Delta^{n_s}$.

- (i) For $\beta < 1$,
- $$\varphi_\beta^1(a, s, x, y) := (1 - \beta)r^1(s, a, y_s) + \beta \sum_{t=1}^z p(t|s, a, y_s)\gamma_\beta^1(t, x, y),$$
- $$\varphi_\beta^2(b, s, x, y) := (1 - \beta)r^2(s, x_s, b) + \beta \sum_{t=1}^z p(t|s, x_s, b)\gamma_\beta^2(t, x, y),$$
- and
- $$\varphi_1^1(a, s, x, y) := r^1(s, a, y_s) + \sum_{t=1}^z p(t|s, a, y_s)w^1(t, x, y),$$
- $$\varphi_1^2(b, s, x, y) := r^2(s, x_s, b) + \sum_{t=1}^z p(t|s, x_s, b)w^2(t, x, y).$$
- (ii) For $\beta \in [0, 1]$,
- $$B_\beta^1(s, x, y) := \{\underline{a} \in \Delta^{m_s} : \varphi_\beta^1(\underline{a}, s, x, y) = \max_a \varphi_\beta^1(a, s, x, y)\},$$
- $$B_\beta^2(s, x, y) := \{\underline{b} \in \Delta^{n_s} : \varphi_\beta^2(\underline{b}, s, x, y) = \max_b \varphi_\beta^2(b, s, x, y)\}.$$
- (iii) For $\beta \in [0, 1]$, $x^* \in X$ and $y^* \in Y$,
- $$\varphi_\beta^1(x^*, x, y) := (\varphi_\beta^1(x_1^*, 1, x, y), \varphi_\beta^1(x_2^*, 2, x, y), \dots, \varphi_\beta^1(x_z^*, z, x, y)),$$
- $$\varphi_\beta^2(y^*, x, y) := (\varphi_\beta^2(y_1^*, 1, x, y), \varphi_\beta^2(y_2^*, 2, x, y), \dots, \varphi_\beta^2(y_z^*, z, x, y)).$$

Observe that Lemma 2.1 and Notation 2.4 directly imply the following remark.

Remark 2.5

$\varphi_\beta^1(x_s, s, x, y) = \gamma_\beta^1(s, x, y)$ and $\varphi_\beta^2(y_s, s, x, y) = \gamma_\beta^2(s, x, y)$ for all $\beta \in [0, 1]$.

The importance of these definitions becomes clear in the following lemma's:

Lemma 2.4

For a stochastic game Γ let $x, x^* \in X$, $y \in Y$ and $\beta < 1$.

- (i) If $\varphi_\beta^1(x^*, x, y) \leq \gamma_\beta^1(x, y)$, then $\gamma_\beta^1(x^*, y) \leq \gamma_\beta^1(x, y)$.
- (ii) If $\varphi_\beta^1(x^*, x, y) \not\leq \gamma_\beta^1(x, y)$, then $\gamma_\beta^1(x^*, y) \not\leq \gamma_\beta^1(x, y)$.
- (iii) If $\varphi_\beta^1(x^*, x, y) \geq \gamma_\beta^1(x, y)$, then $\gamma_\beta^1(x^*, y) \geq \gamma_\beta^1(x, y)$.
- (iv) If $\varphi_\beta^1(x^*, x, y) \not\geq \gamma_\beta^1(x, y)$, then $\gamma_\beta^1(x^*, y) \not\geq \gamma_\beta^1(x, y)$.

The discerned cases in the above lemma can be proved using an iteration argument.

Lemma 2.5

For an irreducible stochastic game let $x, x^* \in X$ and $y \in Y$:

- (i) If $\varphi_1^1(x^*, x, y) \leq \gamma_1^1(x, y) + w^1(x, y)$, then $\gamma_1^1(x^*, y) \leq \gamma_1^1(x, y)$.
- (ii) If $\varphi_1^1(x^*, x, y) \not\leq \gamma_1^1(x, y) + w^1(x, y)$, then $\gamma_1^1(x^*, y) \not\leq \gamma_1^1(x, y)$.

(iii) If $\varphi_1^1(x^*, x, y) \geq \gamma_1^1(x, y) + w^1(x, y)$, then $\gamma_1^1(x^*, y) \geq \gamma_1^1(x, y)$.

(iv) If $\varphi_1^1(x^*, x, y) \not\geq \gamma_1^1(x, y) + w^1(x, y)$, then $\gamma_1^1(x^*, y) \not\geq \gamma_1^1(x, y)$.

Each of the cases in the above lemma can be proved by multiplying both sides of the inequality with $Q(x^*, y)$ and using Lemmas 2.2, 2.3, Remarks 2.3, 2.4 and Notation 2.4.

The next lemma follows directly from Lemmas 2.4, 2.5 and Definition 1.1. It uses the functions φ_β^k to characterize stationary equilibria in the stochastic game.

Lemma 2.6

Let again $(x, y) \in X \times Y$. For $\beta < 1$ as well as for Γ irreducible and $\beta = 1$: (x, y) is an equilibrium if and only if for all $s \in S$

$$\varphi_\beta^1(x_s, s, x, y) = \max_a \varphi_\beta^1(a, s, x, y) \text{ and}$$

$$\varphi_\beta^2(y_s, s, x, y) = \max_b \varphi_\beta^2(b, s, x, y).$$

In the following lemma we characterize stationary equilibria in a perturbed stochastic game $\Gamma_\beta(\varepsilon^1, \varepsilon^2)$, using the sets B_β^k . Verbally the lemma says that if a pair of stationary strategies is an equilibrium, then there can only be surplus weight on actions that are among the best; conversely, if for a pair of stationary strategies all actions that have surplus weight are among the best, then this pair of strategies is an equilibrium. We use e_i (f_j) to denote the ‘degenerate’ mixed action: choose action i (j) with probability 1.

Lemma 2.7

Let Γ be a stochastic game, let $(\varepsilon^1, \varepsilon^2)$ be a mistake pair and let $(x, y) \in X_{\varepsilon^1} \times Y_{\varepsilon^2}$. For $\beta < 1$ as well as for Γ irreducible and $\beta = 1$, the following statement holds:

$(x, y) \in E(\Gamma_\beta(\varepsilon^1, \varepsilon^2))$ if and only if for all s, i and j :

$$[x_s(i) > \varepsilon_s^1(i) \Rightarrow e_i \in B_\beta^1(s, x, y)] \text{ and } [y_s(j) > \varepsilon_s^2(j) \Rightarrow f_j \in B_\beta^2(s, x, y)].$$

Proof:

The proof is analogous for the two discerned cases, so let $\beta \in [0, 1]$.

(i) The ‘only if’ part.

Suppose $(x, y) \in E(\Gamma_\beta(\varepsilon^1, \varepsilon^2))$ and for some s^* and i^* : $x_{s^*}(i^*) > \varepsilon_{s^*}^1(i^*)$ and $e_{i^*} \notin B_\beta^1(s^*, x, y)$. Take $i' \in B_\beta^1(s^*, x, y)$ and define $x' \in X_{\varepsilon^1}$ by: $x'_s := x_s$ for $s \neq s^*$ and $x'_{s^*}(i) := x_{s^*}(i)$ for $i \notin \{i^*, i'\}$,

$x'_{s^*}(i') := x_{s^*}(i') + x_{s^*}(i^*) - \varepsilon_{s^*}^1(i^*)$ and $x'_{s^*}(i^*) := \varepsilon_{s^*}^1(i^*)$.
 Using the linearity of $\varphi_\beta^1(\cdot, s, x, y)$ we derive that:
 $\varphi_\beta^1(x'_{s^*}, s^*, x, y) > \varphi_\beta^1(x_{s^*}, s^*, x, y)$
 (and $\varphi_\beta^1(x'_s, s, x, y) = \varphi_\beta^1(x_s, s, x, y)$ for all $s \neq s^*$),
 which contradicts $(x, y) \in E(\Gamma_\beta(\varepsilon^1, \varepsilon^2))$ (cf. Lemma 2.6).

(ii) The ‘if’ part.

Suppose for all s, i and j :

$[x_s(i) > \varepsilon_s^1(i) \Rightarrow e_i \in B_\beta^1(s, x, y)]$ and $[y_s(j) > \varepsilon_s^2(j) \Rightarrow f_j \in B_\beta^2(s, x, y)]$.
 Then, using that $\varphi_\beta^1(a, s, x, y) = \sum_{i=1}^{m_s} a_i \varphi_\beta^1(e_i, s, x, y)$ for all $a \in \Delta^{m_s}$,
 we derive that $\varphi_\beta^1(a, s, x, y) \leq \varphi_\beta^1(x_s, s, x, y)$ for all $a \in \Delta_{\varepsilon_s^1}^{m_s}$. Similarly
 one can show that $\varphi_\beta^2(b, s, x, y) \leq \varphi_\beta^2(y_s, s, x, y)$ for all $b \in \Delta_{\varepsilon_s^2}^{n_s}$. In
 view of Lemma 2.6 this implies that $(x, y) \in E(\Gamma_\beta(\varepsilon^1, \varepsilon^2))$. \square

3 Perfect Equilibria in Stochastic Games

In this section we will treat β -discounted stochastic games and irreducible limiting average stochastic games simultaneously. Therefore Γ_β should be interpreted as a general β -discounted stochastic game for $\beta < 1$ and as an irreducible limiting average stochastic game for $\beta = 1$.

Theorem 3.1

For each stochastic game Γ and for every $\beta \in [0, 1]$: $E(\Gamma_\beta) \neq \emptyset$.

The proof of Theorem 3.1 is based on the facts that γ_β^k is a continuous function on $X \times Y$, for each k and β , and that X and Y are closed convex polyhedra (see Fink (Ref. 6) and Rogers (Ref. 7)). Because for any mistake pair $(\varepsilon^1, \varepsilon^2)$ the sets X_{ε^1} and Y_{ε^2} are also closed convex polyhedra, the next lemma immediately follows.

Lemma 3.1

Let $\Gamma(\varepsilon^1, \varepsilon^2)$ be a perturbed stochastic game.

Then $E(\Gamma_\beta(\varepsilon^1, \varepsilon^2)) \neq \emptyset$ for all $\beta \in [0, 1]$.

Lemma 3.2

If $(x, y) \in X \times Y$ is a perfect pair for Γ_β , $\beta \in [0, 1]$, then $(x, y) \in PE(\Gamma_\beta)$.

Proof:

There exist a sequence of mistake pairs $\{(\varepsilon^{1n}, \varepsilon^{2n}) : n \in \mathbf{N}\}$ converging to 0 and a sequence $\{(x^n, y^n) \in E(\Gamma_\beta(\varepsilon^{1n}, \varepsilon^{2n})) : n \in \mathbf{N}\}$ converging to (x, y) .

We have to show that for all $(x^*, y^*) \in X \times Y$:

$$\gamma_\beta^1(x^*, y) \leq \gamma_\beta^1(x, y) \text{ and } \gamma_\beta^2(x, y^*) \leq \gamma_\beta^2(x, y).$$

So let $x^* \in X$ and take a sequence $\{x^{n*} \in X_{\varepsilon^{1n}} : n \in \mathbf{N}\}$ converging to x^* .

Then $\gamma_\beta^1(x^{n*}, y^n) \leq \gamma_\beta^1(x^n, y^n)$ for all $n \in \mathbf{N}$. Using the continuity of γ_β^1 we get $\gamma_\beta^1(x^*, y) \leq \gamma_\beta^1(x, y)$. Similarly one can show that $\gamma_\beta^2(x, y^*) \leq \gamma_\beta^2(x, y)$ for all $y^* \in Y$. \square

Lemma 3.3

$PE(\Gamma_\beta) \neq \emptyset$ for all $\beta \in [0, 1]$.

Proof:

Let $\beta \in [0, 1]$. Take a sequence of mistake pairs $\{(\varepsilon^{1n}, \varepsilon^{2n}) : n \in \mathbf{N}\}$ converging to 0. By Lemma 3.1 there exists a sequence $\{(x^n, y^n) \in E(\Gamma_\beta(\varepsilon^{1n}, \varepsilon^{2n})) : n \in \mathbf{N}\}$. Because $(x^n, y^n) \in X \times Y$ for all $n \in \mathbf{N}$ and $X \times Y$ is a compact set, we may assume, without loss of generality, that the sequence $\{(x^n, y^n) \in E(\Gamma_\beta(\varepsilon^{1n}, \varepsilon^{2n})) : n \in \mathbf{N}\}$ converges in $X \times Y$. Then $\lim_{n \rightarrow \infty} (x^n, y^n)$ is a perfect equilibrium in Γ_β by Lemma 3.2. \square

In Theorem 3.2 we give two characterizations of perfect equilibria. First we need some definitions. We define ‘completely mixed strategies’ as stationary strategies that use all actions with positive probability. We also define ‘ ε -perfect pairs’: pairs of completely mixed strategies where for a specific mistake pair (constant ε for all actions) any surplus weight of the strategies is on best actions (see Lemma 2.7).

Definition 3.1

A stationary strategy $x \in X$ ($y \in Y$) is called completely mixed if for all s, i and j : $x_s(i) > 0$ ($y_s(j) > 0$).

Definition 3.2

Let $\varepsilon > 0$ and $\beta \in [0, 1]$. A pair of completely mixed strategies (x, y) is called ε -perfect in Γ_β if for all s, i and j :

$$[x_s(i) > \varepsilon \Rightarrow e_i \in B_\beta^1(s, x, y)] \text{ and } [y_s(j) > \varepsilon \Rightarrow f_j \in B_\beta^2(s, x, y)].$$

Notice from Lemma 2.7 that a pair of stationary strategies is an ε -perfect pair if and only if it is an equilibrium in the specific perturbed game where all weights are perturbed by the same $\varepsilon > 0$.

The next lemma tells us that in order to decide whether or not a pair of stationary strategies is a perfect equilibrium, it is sufficient to consider equilibria of such ‘constant ε -perturbed’ games, where ε tends to zero. Hence one can restrict to a relatively small class of perturbed games in order to investigate perfectness for a given pair of stationary strategies.

Theorem 3.2

Let $(x, y) \in X \times Y$ and let $\beta \in [0, 1]$.

The following three statements are equivalent:

- (i) (x, y) is a perfect equilibrium in Γ_β .
- (ii) There is a sequence $\{\varepsilon^n \in (0, 1) : n \in \mathbf{N}\}$ converging to 0 and a sequence $\{(x^n, y^n) \in X \times Y : n \in \mathbf{N}\}$ converging to (x, y) such that (x^n, y^n) is ε^n -perfect in Γ_β for all $n \in \mathbf{N}$.
- (iii) There is a sequence of completely mixed pairs $\{(x^n, y^n) \in X \times Y : n \in \mathbf{N}\}$ converging to (x, y) such that for all s, i and j :
 $[x_s(i) > 0 \Rightarrow e_i \in B_\beta^1(s, x^n, y^n)]$ and $[y_s(j) > 0 \Rightarrow f_j \in B_\beta^2(s, x^n, y^n)]$.

Proof:

We successively show: (i) \rightarrow (ii), (ii) \rightarrow (iii), (iii) \rightarrow (i).

(i) \rightarrow (ii): Suppose that $(x, y) \in PE(\Gamma_\beta)$, then there is a sequence of mistake pairs $\{(\varepsilon^{1n}, \varepsilon^{2n}) : n \in \mathbf{N}\}$ converging to 0 as well as a sequence $\{(x^n, y^n) \in E(\Gamma_\beta(\varepsilon^{1n}, \varepsilon^{2n})) : n \in \mathbf{N}\}$ converging to (x, y) . Let $\varepsilon^n := \max_{s,i,j} \{\varepsilon_s^{1n}(i), \varepsilon_s^{2n}(j)\}$ for each $n \in \mathbf{N}$. Then by Lemma 2.7 and by Definition 3.2 each pair (x^n, y^n) is ε^n -perfect.

(ii) \rightarrow (iii): Suppose ε^n and (x^n, y^n) , $n \in \mathbf{N}$, are as in (ii). Then by definition (x^n, y^n) is completely mixed for all n . Since $\lim_{n \rightarrow \infty} (x^n, y^n) = (x, y)$, it holds that: if $x_s(i) > 0$ then $x_s^n(i) > \varepsilon^n$ for large n . Thus, by Definition 3.2, $e_i \in B_\beta^1(s, x^n, y^n)$ for large n .

(iii) \rightarrow (i): Let $\{(x^n, y^n) : n \in \mathbf{N}\}$ and (x, y) be as in (iii). For all $n \in \mathbf{N}$, for all s, i and j define:

$\varepsilon_s^{1n}(i) := n^{-1}$ if $x_s(i) > 0$, and $\varepsilon_s^{1n}(i) := x_s^n(i)$ otherwise.

$\varepsilon_s^{2n}(j) := n^{-1}$ if $y_s(j) > 0$, and $\varepsilon_s^{2n}(j) := y_s^n(j)$ otherwise.

Then $\Gamma_\beta(\varepsilon^{1n}, \varepsilon^{2n})$ is a well-defined perturbed game for large n . For large n , for $s \in S$ and i such that $x_s(i) > 0$, we have $x_s^n(i) > n^{-1} = \varepsilon_s^{1n}(i)$ and for s and i such that $x_s(i) = 0$, we have $x_s^n(i) = \varepsilon_s^{1n}(i)$. Hence $x^n \in X_{\varepsilon^{1n}}$ for large n , and by (iii) we have that: $x_s^n(i) > \varepsilon_s^{1n}(i) > 0$ implies $e_i \in B_\beta^1(s, x^n, y^n)$. Using the same argument for player 2 and using Lemma 2.7 we have shown (i). \square

4 Concluding Remarks

One of our reasons to consider this notion of (trembling hand) perfect equilibrium for stochastic games was to be able to work with particular sequences of stationary β -discounted equilibria, for β tending to 1. In Vrieze and Thuijsman (Ref. 8) and more generally in Thuijsman (Ref. 9) it is shown that for certain classes of stochastic games one can derive limiting average (ε -)equilibria by examining arbitrary sequences of stationary β -discounted equilibria. However the existence of limiting average ε -equilibria in general stochastic games is still an open problem. Now being able to use sequences of perfect stationary β -discounted equilibria may bring us closer to a solution for this challenging problem.

To illustrate that trembling hand perfectness does not make much sense in non-irreducible limiting average stochastic games we examine the following example.

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Here the notation for state 3, for example, means a payoff 0 (1) to player 1 (2) and a transition to state 3 with probability 1. For this game a stationary strategy is completely determined by the mixed action for state 1.

If we let $x = e_1$ and let $y = f_1$, then $(x, y) \in E(\Gamma_1)$. So there is at least one stationary limiting average equilibrium for this game, but is there also a perfect one?

Let $(\varepsilon^1, \varepsilon^2)$ be a mistake pair for state 1 and let that $(x', y') \in E(\Gamma_1(\varepsilon^1, \varepsilon^2))$. Then $y'(2) = 1 - \varepsilon^2(1) - \varepsilon^2(3)$, because player 2's limiting average reward is maximal if column two gets maximal weight, as to maximize the probability of absorption in state 3. So if (x^*, y^*) is a perfect limiting average equilibrium, then $y^* = f_2$. This however would imply that $x^* = e_2$ in case (x^*, y^*) is an equilibrium. But then the only best answer to x^* for player 2 is $f_3 \neq y^*$, which contradicts the assumption that (x^*, y^*) is an equilibrium. Hence there are no perfect limiting average equilibria in this stochastic game, even though a stationary limiting average equilibrium exists.

One can also check that (x, y) is a perfect β -discounted equilibrium for all $\beta < 1$.

It should be observed that any stationary equilibrium in a β -discounted or irreducible limiting average stochastic game is necessarily a subgame-perfect equilibrium.

Characterizations in this paper for perfect equilibria in stochastic games, are similar to characterizations for perfect equilibria in bimatrix games (see Ref. 10).

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