Simple Sequencing Problems with Interdependent Costs *

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Abstract

In this paper we analyze simple sequencing problems under incomplete information and interdependent costs. We prove the necessity of concave cost function for implementability of such problems. Moreover, these problems are implementable if and only if the mechanism is a 'Generalized VCG mechanism'. We then prove that for implementable n agent simple sequencing problems, with polynomial cost function of order $(n-2)$ or less, one can achieve first best implementability. Finally, for the class of implementable simple sequencing problems with "sufficiently well behaved" cost function, this is the only first best class.

Keywords: Simple Sequencing Problems, Ex-post Equilibrium, First Best Implemen -tability.

JEL-Classification-Number: C44, C72, C78, D82.

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1 Introduction

In this paper we consider the problem of a planner who has to provide a facility to a finite set of agents. Alternatively, one can also consider the problem of a group of agents who wants to use a facility. An institute (like a college or a university) that has only one computer is one example.[1] Providing access of one runway facility to aeroplanes, for landing and takeoff, is another example. In these situations, each agent has one job to process using the facility. It takes different time periods for different agents to process their jobs. The facility can be used by only one agent at a time in a queue. Waiting is costly for all agents. In these sequencing situations, costs are interdependent since the cost of an agent depends not only on her own processing time but also on the processing time of all agents who precedes her in the queue. The planner's or group's objective is to select an efficient queue to minimize the aggregate cost, given that the number of agents, in need for the facility, is known. In these sequencing situations, it is quite natural to assume that the job processing time of the agents is private information. Moreover, if it is costly to monitor the agents' action or to verify the true job processing time, then there is an incentive problem. Agents, if asked, will announce their job processing time strategically. Given the incentive problem we ask the following question: Can the planner or group design a mechanism such that it is in the interest of the agents to reveal their true processing time? We refer to such a problem as *simple sequencing problem with interdependent costs*. We call this problem 'simple' because the form of the cost function is assumed to be known and identical for all agents.

Sequencing problems in the *absence of interdependent cost* were analyzed, among others, by Suijs (1996) and Mitra (2002). Discrete time sequencing problems (or queueing problems) with single facility and multiple facilities were analyzed by Mitra (2001)(a) and Mitra (2001)(b) respectively. In all these papers, the Vickrey-Clarke-Groves (or VCG) mechanisms (due to Vickrey (1961), Clarke (1971) and Groves (1973)) uniquely solves the incentive problem in dominant strategies and guarantees efficiency of decision. Once we assume that processing time is private information, an agent's utility from the facility depends directly on the processing time of other agents and hence the VCG mechanism fails to solve the incentive problem. Given this impossibility, our first objective is to identify the class of mechanisms that implement a simple sequencing problem in 'ex-post equilibrium'. Implementability in ex-post equilibrium means that one can find mechanisms that satisfy efficiency of decision and ex-post incentive compatible. A mechanism is ex-post incentive compatible if truth-telling is a best response whenever others' are truthful. The results in this direction are, to the most part, a straightforward extension

[1] One can also consider any other research facility like a spectrometer, a telescope or a tunnel-microscope.

of the existing literature. We first show that for implementability, it is necessary that the cost function is concave. We then show that a simple sequencing problem is implementable if and only if the mechanism is a 'Generalized VCG mechanism'.

Our *main objective* is to identify the sub-class of first best implementable simple sequencing problems. A simple sequencing problem is first best implementable if it is implementable with a transfer scheme that adds up to zero in all states. Thus, first best guarantees costless information extraction along with efficiency of decision. In this regard, our analysis is 'similar' to the analysis on first best with VCG mechanisms under different private values set up (see Green and Laffont (1979), Hurwicz and Walker (1990), Laffont and Maskin (1982), Liu and Tian (1999), Mitra (2001)(a), (2001)(b), (2002), Suijs (1996), Tian (1996) and Walker (1980)). We show that an implementable n agent simple sequencing problem, with polynomial cost of order $(n-2)$ or less, is first best implementable. Moreover, for simple sequencing problems with "sufficiently well behaved" cost function, this is the only first best implementable class.

The paper is organized in the following way. We conclude this section by relating our work to the existing literature. We then formalize simple sequencing problems in Section 2. In Section 3, we provide results on implementability of simple sequencing problems. In Section 4, we address the issue of first best implementability. We conclude our analysis in Section 5. All proofs are provided in the appendix.

1.1 Related Literature

Mechanism design problems with interdependent valuation have been analyzed in the context of auction (see Ausubel (1999), Dasgupta and Maskin (2000), Jéhiel and Moldovanu (2001) and Perry and Reny (2002)) and in the context of trading (see Fieseler, Kittsteiner and Moldovanu (2001) and Gresik (1991)). Bergemann and Välimäki (2002) address the issue of interdependent value by restricting signals to be one dimensional. Radner and Williams (1988) showed the existence problem of dominant strategy mechanisms under informational externality. Our analysis of implementability in ex-post equilibrium follows from the general results provided by, Dasgupta and Maskin (2000), Jéhiel and Moldovanu (2001) and Bergemann and Välimäki (2002). However, we adopt the model of Bergemann and Välimäki (2002) for comparing our implementability results since it is most suited for this purpose.

In the partnership context, Fieseler, Kittsteiner and Moldovanu (2001) argue that, with their 'generalized Groves mechanism', it is possible to apply expected externality payments (à la Arrow (1979) and d'Aspremont Gérard-Varet (1979)) to achieve (ex-post) budget balancedness. They point out that, for the expected externality mechanism, truth-telling is a Bayesian but not an ex-post equilibrium. In our context, first best implies mechanisms that satisfy efficiency of decision, ex-post budget balancedness and ex-post incentive compatibility. In the private value set up, Walker (1980) derived the necessary condition for budget balancedness of the class of VCG mechanisms. We argue that Walker's necessary condition is also necessary for balancedness of 'Generalized VCG mechanism'.

2 Simple Sequencing Problems

Let $\mathbf{N} \equiv \{1, 2, \ldots, n\}$ be the set of agents in need of the facility. Each agent $j \in \mathbf{N}$ takes $s_j \in (0, \bar{s}] \subseteq \mathbf{R}_{++}$ units of time to process her own job. Since the facility can be used by only one agent at a time, the agents will have to use the facility sequentially. By means of a permutation $\sigma = (\sigma_1, \ldots, \sigma_n)$ on $\mathbf{N}$, one can describe the position of each agent in the queue. Let $\mathbf{\Sigma}$ be the set of all possible permutations of $\mathbf{N}$. Therefore, a queue σ is a mapping from the set of agents $\mathbf{N}$ to $\mathbf{\Sigma}$. Let $\mathcal{P}_j(\sigma) = \{p \in \mathbf{N} - \{j\} \mid \sigma_p < \sigma_j\}$ be the predecessor set of j in σ and $\mathcal{P}_j^c(\sigma) = \{q \in \mathbf{N} - \{j\} \mid \sigma_j < \sigma_q\}$ be the successor set of j in σ. Let $F(S_j)$ measure the cost of agent $j \in \mathbf{N}$ if her job processing is complete at time point $S_j \in \mathbf{R}_{++}$. Therefore, the cost of an agent is a mapping $F : \mathbf{R}_{++} \to \mathbf{R}_{+}$. We assume that F is *continuous* and *strictly increasing.* Given a processing time vector $s = (s_1, \ldots, s_n)$ and a queue σ, the cost of agent $j \in \mathbf{N}$ is $F(S_j(\sigma; s))$, where $S_j(\sigma; s) = \sum_{p \in \mathcal{P}_j(\sigma)} s_p + s_j$. The utility of agent j, in state $s = (s_1, \ldots, s_n)$ and in the queue σ is $U_j(\sigma, t_j; s) = v_j - F(S_j(\sigma; s)) + t_j$ where v_j is the gross benefit, derived by agent j, from the facility and t_j is the transfer that she receives.

A queue $\sigma^* \in \mathbf{\Sigma}$, given s, is *efficient* if $\sigma^* \in \text{argmin}_{\sigma \in \mathbf{\Sigma}} \sum_{j \in \mathbf{N}} F(S_j(\sigma; s))$. For a state $s = (s_1, \ldots, s_n)$, a queue σ^* is efficient *if and only if* for all pairs of agents $\{j, i\}$ such that $s_j < s_i$, the condition $\sigma_j^* < \sigma_i^*$ is satisfied. Note that there are states for which we can have more than one efficient queue. For example, consider the case where $n = 3$ and a state $s = (s_1, s_2, s_3)$ such that $s_3 < s_1 = s_2$. For s, $\sigma = (\sigma_1 = 2, \sigma_2 = 3, \sigma_3 = 1)$ and $\tilde{\sigma} = (\tilde{\sigma}_1 = 3, \tilde{\sigma}_2 = 2, \tilde{\sigma}_3 = 1)$ are both efficient. Thus, we have an efficiency correspondence. An *efficient rule* is a single valued selection from the efficiency correspondence. An efficient rule can always be selected from the efficiency correspondence by selecting an appropriate tie breaking rule. In this paper we will consider the following tie breaking rule: if $s_i = s_j$ then $\sigma_i^* < \sigma_j^*$ if $i < j$.

It is natural to assume that agents have private information about their own job processing time. If the processing time vector $s = (s_1, \ldots, s_n)$ is private information, then the problem is to design a *mechanism* that will elicit this information truthfully. Using the Revelation Principle, we concentrate on *direct mechanisms* where each agent reports her own processing time (or type) and based on this report, the planner (or group) decides on the queue and the transfer vector for the set of agents. Formally, a direct mechanism $\mathbf{M}$ is a pair $\langle \sigma, \mathbf{t} \rangle$, where $\sigma : (0, \bar{s}]^n \to \mathbf{\Sigma}$ and

$\mathbf{t} \equiv (t_1, \ldots, t_n) : (0, \overline{s}]^n \rightarrow \mathbf{R}^n$. We represent a *simple sequencing problem (with interdependent cost)* by $\Gamma = \langle \mathbf{N}, F, (0, \overline{s}] \rangle$, where $\mathbf{N}$ is the number of agents, F is the common cost function and $(0, \overline{s}]$ is the interval of job processing time. Under $\mathbf{M} = \langle \sigma, \mathbf{t} \rangle$, given an announcement $\hat{s} = (\hat{s}_1, \ldots, \hat{s}_n) \in (0, \overline{s}]^n$ in state $s = (s_1, \ldots, s_n) \in (0, \overline{s}]^n$, the utility of agent j is given by $U_j(\sigma(\hat{s}), t_j(\hat{s}); s) = v_j - F(S_j(\sigma(\hat{s}); s)) + t_j(\hat{s})$. Note that the efficient queue is determined on the basis of the announced processing cost of all agents and the cost that each agent incurs depends on the actual cost of her own predecessors in the queue as well as her own processing cost. We conclude this section by defining implementability and first best implementability in ex-post equilibrium.

DEFINITION 2.1 For a simple sequencing problem $\Gamma = \langle \mathbf{N}, F, (0, \overline{s}] \rangle$, the efficient queue $\sigma^* : (0, \overline{s}]^n \rightarrow \mathbf{\Sigma}$ is *implementable in ex-post equilibrium*, if there exists a mechanism $\mathbf{M} = \langle \sigma^*, \mathbf{t} \rangle$ such that, for all $j \in \mathbf{N}$, for all $(s_j, s'_j) \in (0, \overline{s}]^2$ and for all processing time vectors $s_{-j} \in (0, \overline{s}]^{n-1}$, $U_j(\sigma^*(s), t_j(s); s) \geq U_j(\sigma^*(s'_j, s_{-j}), t_j(s'_j, s_{-j}); s)$.

DEFINITION 2.2 For a simple sequencing problem $\Gamma = \langle \mathbf{N}, F, (0, \overline{s}] \rangle$, the efficient queue $\sigma^* : (0, \overline{s}]^n \rightarrow \mathbf{\Sigma}$ is *first best implementable* (*in ex-post equilibrium*) if there exists a mechanism $\mathbf{M} = \langle \sigma^*, \mathbf{t} \rangle$ that implements it with a budget balancing transfer, i.e. $\sum_{j \in \mathbf{N}} t_j(s) = 0$ for all $s \in (0, \overline{s}]$.

3 Implementability in Ex-post Equilibrium

We start this section by providing the necessary condition for implementability of a simple sequencing problem. Before doing that, we state two relevant definitions. We first define the *first order incremental loss of amount h at x* as $\Delta(h)F(x) = F(x+h) - F(x)$. Secondly, we define *concavity* of the cost function. The cost function F is concave if for all x and y belonging to its domain $(0, n\bar{s}]$ and for all $\lambda \in [0,1]$, $F(\lambda x + (1-\lambda)y) \geq \lambda F(x) + (1-\lambda)F(y)$. One obvious property of a concave cost function F, that will be used in the following proposition, is that for all $\{s_j, s'_j, s_i\} \in (0, \overline{s}]^3$ with $s_j < s'_j$ and for all $x \in (0, (n-2)\overline{s}]$, $\Delta(s_i)F(x + s'_j) \leq \Delta(s_i)F(x + s_j)$.

PROPOSITION 1 For a simple sequencing problem Γ, σ^* is implementable in ex-post equilibrium **only if** the cost function F is concave.

Concavity of cost function is the equivalent of the "single crossing" property (see Ausubel (1999), Perry and Reny (2002)) in our framework. To elicit private information in a simple sequencing problem, each agent j has to be compensated for her *aggregate incremental loss* in σ^*. The aggregate incremental loss of agent j, in σ^*, is the difference between her actual cost in σ^* and her own job processing time, (that is $\Delta(\sum_{p \in \mathcal{P}_j(\sigma)} s_p)F(s_j) = F(S_j(\sigma; s)) - F(s_j))$. Since, for implementability, it is necessary that the aggregate incremental loss must be *non-increasing*, we need concavity of F.

We define the *Generalized VCG mechanisms*, following Bergemann and Välimäki (2002). Let $C_{-j}(\sigma^*(s); s') = \sum_{i \neq j} F(S_i(\sigma^*(s); s'))$ be the aggregate cost of all but agent j in state s' and in the queue $\sigma^*(s)$.

DEFINITION 3.3 For any Γ, a mechanism $\mathbf{M} = \langle \sigma^*, \mathbf{t} \rangle$ is said to be a *Generalized VCG mechanism* if, for all $j \in \mathbf{N}$ and for all announcement vectors $\hat{s}_{-j} \in (0, \bar{s}]^{n-1}$, the following two conditions are satisfied:

(i) For announcements $(\hat{s}_j, \hat{s}'_j) \in (0, \bar{s}]^2$ such that $\sigma^*_j(\hat{s}) = \sigma^*_j(\hat{s}'_j, \hat{s}_{-j})$, $t_j(\hat{s}'_j, \hat{s}_{-j}) = t_j(\hat{s})$.

(ii) For announcements $(\hat{s}_j, \hat{s}'_j) \in (0, \bar{s}]^2$ with $\sigma^*_j(\hat{s}) = \sigma^*_j(\hat{s}'_j, \hat{s}_{-j}) - 1$,

$$t_j(\hat{s}'_j, \hat{s}_{-j}) - t_j(\hat{s}) = C_{-j}(\sigma^*(\hat{s}); \tilde{s}_j, \hat{s}_{-j}) - C_{-j}(\sigma^*(\hat{s}'_j, \hat{s}_{-j}); \tilde{s}_j, \hat{s}_{-j}) \tag{3.1}$$

where $(\tilde{s}_j, \hat{s}_{-j})$ is the state for which both $\sigma^*(\hat{s})$ and $\sigma^*_j(\hat{s}'_j, \hat{s}_{-j})$ are efficient, that is for the state $(\tilde{s}_j, \hat{s}_{-j})$, $\sum_{i \in \mathbf{N}} F(S_i(\sigma^*(\hat{s}); \tilde{s}_j, \hat{s}_{-j})) = \sum_{i \in \mathbf{N}} F(S_i(\sigma^*(\hat{s}'_j, \hat{s}_{-j}); \tilde{s}_j, \hat{s}_{-j}))$.

We derive the class of Generalized VCG mechanisms in the next Proposition.

PROPOSITION 2 For any Γ, a mechanism $\mathbf{M} = \langle \sigma^*, \mathbf{t} \rangle$ is a Generalized VCG mechanism *if and only if* for all announced processing time vectors $\hat{s} \in (0, \bar{s}]^n$ and for all $j \in \mathbf{N}$,

$$t_j(\hat{s}) = \begin{cases} \sum_{p \in \mathcal{P}_j(\sigma^*(\hat{s}))} V_p(\hat{s}) + h_j(\hat{s}_{-j}) & \text{if } \sigma^*_j(\hat{s}) \neq 1 \\ h_j(\hat{s}_{-j}) & \text{if } \sigma^*_j(\hat{s}) = 1 \end{cases} \tag{3.2}$$

where $V_p(\hat{s}) = \Delta(\hat{s}_p) F(S_p(\sigma^*(\hat{s}); \hat{s}))$ and where h_j is an arbitrary function of $\hat{s}_{-j}$.

The importance of Generalized VCG mechanism is captured in the next Proposition.

PROPOSITION 3 For all Γ, with strictly increasing and concave cost functions, σ^* is implementable. Moreover, for a Γ, σ^* is implementable *if and only if* the mechanism is a Generalized VCG mechanism.

We try to provide the reason behind the implementability property of the Generalized VCG mechanism. Let $p(j)$ be the immediate predecessor of agent j in the queue σ, that is $p(j) = \{i \in \mathcal{P}_j(\sigma) \mid \sigma_i = \sigma_j - 1\}$. We define the *incremental loss* of agent j, in state s and in queue σ, as

$$\mathcal{V}_j(\sigma; s) = \begin{cases} \Delta(s_{p(j)}) F\left(\sum_{q \in \mathcal{P}_{p(j)}(\sigma)} s_q + s_j \right) & \text{if } \sigma_j(s) \neq 1 \\ 0 & \text{otherwise} \end{cases}$$

The incremental loss of agent j is the additional cost that j incurs due to the presence of her immediate predecessor $p(j)$ in the queue σ. Consider a state s and the efficient queue $\sigma^*(s)$. For the state s, the incremental loss of agent j is $\mathcal{V}_j(\sigma^*(s); s) = \Delta(s_{p(j)})F(\sum_{q \in \mathcal{P}_{p(j)}(\sigma^*(s))} s_q + s_j)$ if $\sigma_j^*(s) \neq 1$ and $s_{p(j)} \leq s_j$ and $\mathcal{V}_j(\sigma^*(s); s) = 0$ otherwise. Let $\hat{S}_j^{\sigma_j^*(s)} = \{x \in (0, \bar{s}] \mid \sigma_j^*(x, s_{-j}) = \sigma_j^*(s)\}$. Consider all types $s'_j \in \hat{S}_j^{\sigma_j^*(s)}$ of agent j and define her *maximum possible incremental loss* as $\mathcal{V}_j^*(\sigma^*(s); s) = \max\limits_{s'_j \in \hat{S}_j^{\sigma_j^*(s)}} \mathcal{V}_j(\sigma^*(s); s'_j, s_{-j})$. Due to concavity of the cost function, we get

$$\mathcal{V}_j^*(\sigma^*(s); s) = \begin{cases} V_{p(j)}(s) & \text{if } \sigma_j^*(s) \neq 1 \\ 0 & \text{otherwise} \end{cases}$$

The maximum possible incremental loss of an agent $j \in \mathbf{N}$, in queue position $\sigma_j^*(s) \neq 1$, is the first order difference of amount $s_{p(j)}$ at time point $S_{p(j)}(\sigma(s); s)$ and it is 0 if $\sigma_j^*(s) = 1$. Why is the maximum possible incremental loss important? Consider a state $s \in (0, \bar{s}]^n$, an efficient queue $\sigma^*(s)$ and an agent j with processing time s_j. Assume that all agents have reported truthfully. Simplifying the aggregate incremental loss of agent j we get $\Delta(\sum_{p \in \mathcal{P}_j(\sigma^*(s))} s_p)F(s_j) = \sum_{p \in \mathcal{P}_j(\sigma^*(s))} \Delta(s_p)F(S_p(\sigma^*(s); s) + s_j)$.[2] Using concavity of the cost function F we obtain $\sum_{p \in \mathcal{P}_j(\sigma^*(s))} \Delta(s_p)F(S_p(\sigma^*(s); s) + s_j) \leq \sum_{p \in \mathcal{P}_j(\sigma^*(s))} \Delta(s_p)F(S_p(\sigma^*(s); s)) = \sum_{p \in \mathcal{P}_j(\sigma^*(s))} V_p(s)$. The last inequality states that in state s, the aggregate incremental loss of an agent j, in an efficient queue $\sigma^*(s)$, is no more than the sum of maximum possible incremental loss of her own and that of all her predecessors in the queue. The transfer of an agent j in a Generalized VCG mechanism is the maximum possible incremental loss of agent j and that of all her predecessors in the queue, up to a constant. This transfer is enough to compensate an agent for her aggregate incremental loss in the queue and it guarantees ex-post incentive compatibility.

4 First Best Implementability

In this section we consider the prospects of first best implementability. Given Proposition 3, achieving first best implies identifying implementable simple sequencing problems for which one can find balanced Generalized VCG transfers. Consider any Generalized VCG mechanism for an implementable Γ. Note that for each $s \in (0, \bar{s}]^n$, if we add up the Generalized VCG transfer (3.2) for all agents and set it to zero, we get

$$\mathbf{V}(s) + \sum_{i \in \mathbf{N}} h_i(s_{-i}) = 0 \tag{4.3}$$

[2] Observe that we can always write $\Delta(b+c)F(a) = F(a+b+c) - F(a) = F(a+b+c) - F(a+b) + F(a+b) - F(a) = \Delta(c)F(a+b) + \Delta(b)F(a)$. By applying this relation repeatedly in the appropriate order we get the required simplification.

where, in state s, $\mathbf{V}(s) = \sum_{j\in\mathbf{N}}(n - \sigma_j^*(s))V_j(s)$ is the *weighted aggregate maximum possible incremental loss*. The general implication of (4.3) follows from the Cubical Array Lemma due to Walker (1980). Before stating the Lemma we provide some more notations. Consider two states $s = (s_1, \dots, s_n)$ and $s' = (s'_1, \dots, s'_n)$. We define an index set $P \subseteq \mathbf{N}$ and a state $s(P)$ by replacing those s_j in s by the corresponding s'_j from s' for which $j \in P$. Formally, for a set $P \subseteq \mathbf{N}$, $s(P) = (s_1(P), \dots, s_n(P))$ is a state such that

$$s_j(P) = \begin{cases} s_j & \text{if } j \notin P \\ s'_j & \text{if } j \in P \end{cases}$$

LEMMA 1 For any Γ with concave cost function F, σ^* is first best implementable *only if* for all $\{s, s'\} \in (0, \bar{s}]^n \times (0, \bar{s}]^n$,

$$\sum_{P\subseteq\mathbf{N}} (-1)^{|P|}\mathbf{V}(s(P)) = 0. \tag{4.4}$$

where $|P|$ denotes the cardinality of the set P.

Walker (1980) proved Lemma 1 for VCG mechanisms where it is necessary that the total surplus, in each state, is $(n-1)$ type separable. Like the total surplus of a VCG mechanism, the weighted aggregate maximum possible incremental loss for a Generalized VCG mechanism (in condition (4.3)) must also be $(n-1)$ type separable for first best. For both VCG and Generalized mechanisms, the transfer of an agent has two components. The first component is a function of the announcements of all agents and the second component is a function of the announcements of all but one agent. It is because of this similarity that the Cubical Array Lemma (due to Walker (1980)) is also applicable for Generalized VCG mechanisms. Lemma 1 will be used in proving our main Theorem. Before stating it, we provide a relevant definition.

DEFINITION 4.4 A function f is *sufficiently well behaved* if it has a power series representation in its entire open domain, that is there exists y_0 in its open domain such that the function f has the form $f(y) = \sum_{l=0}^{\infty} c_l(y - y_0)^l$. [3]

THEOREM 1 Consider a $\Gamma = \langle \mathbf{N}, F, (0, \bar{s}] \rangle$ with concave cost function F and with $|\mathbf{N}| = n$ agents.

1. *If* for Γ, F is a polynomial of order $(n-2)$ or less then σ^* is first best implementable.
2. Given a Γ with a sufficiently well-behaved F, σ^* is first best implementable *only if* F is a polynomial of order $(n-2)$ or less.

[3] A function f is said to be *well behaved* if it is infinitely differentiable in its open domain. A sufficiently well behaved function is well behaved but the converse is not true.

We first state another Lemma that will also be used in proving Theorem 1 and then provide an idea of the proof of Theorem 1. We define the *second order cross-partial difference* at x of amounts (a_1, a_2) as $\Delta(a_1)\Delta(a_2)F(x) = \Delta(a_1)[F(x+a_2) - F(x)] = F(x+a_1+a_2) - F(x+a_2) - F(x+a_1) - F(x)$. In general the mth order cross-partial difference at x of amount $(a_1, \ldots, a_m)$ is given by $[\Pi_{i=1}^{m}\Delta(a_i)]\, F(x)$. Observe that for a linear function $F^1(x) = b_0 + b_1 x$, the second order cross partial difference of amounts (a_1, a_2) at some point y is zero, that is $\Delta(a_1)\Delta(a_2)F^1(y) = 0$. Similarly, for a polynomial function F^2 of order two (that is for $F^2(x) = b_0 + b_1 x + b_2 x^2$), it is easy to verify that $\Delta(a_1)\Delta(a_2)\Delta(a_3)F^2(y) = 0$. The next Lemma is a generalization of this idea.

LEMMA 2 If F is a polynomial function of order $m(= 0, 1, \ldots)$, then for any set of numbers $\{a_1, \ldots, a_{m+1}, x\}$, $\left[\Pi_{r=1}^{m+1}\Delta(a_r)\right] F(x) = 0$.

Idea of the proof of Theorem 1 To prove the first part, we first construct a generalized VCG mechanism for a Γ having concave and polynomial cost function F of order $(n-2)$ or less. Consider the Generalized VCG mechanism $\mathbf{M}^* = \langle\sigma^*, \mathbf{t}^*\rangle$ where for all $j \in \mathbf{N}$ and for all s_{-j}, $h_j^*(s_{-j}) = -\sum_{i\neq j} g_{ij}(s_{-j})$ where $g_{ij}(.)$ is a function of s_{-j} and is defined in the following way: $g_{ij}(s_{-j}) = \sum_{r=1}^{\sigma_i^*(s_{-j})}(-1)^{\sigma_i^*(s_{-j})-r}\left\{\frac{(\sigma_i^*(s_{-j})-r)!(n-\sigma_i^*(s_{-j})-1)!}{(n-r-1)!}\right\} z_{ir}(s_{-j})$ where $z_{ir}(s_{-j}) = \sum_{\mathcal{P}_{i,r-1}(\sigma^*(s_{-j}))\subset\mathcal{P}_i(\sigma^*(s_{-j}))}\Delta(s_i)F(\sum_{q\in\mathcal{P}_{i,r-1}(\sigma^*(s_{-j}))} s_q + s_i)$ and $\mathcal{P}_{i,\alpha}(\sigma^*(s_{-j}))$ is an α-element subset of $\mathcal{P}_i(\sigma^*(s_{-j}))$. We then show that the Generalized VCG mechanism $\mathbf{M}^* = \langle\sigma^*, \mathbf{t}^*\rangle$ is budget balancing.

The second part of the Theorem is proved in two steps. The first step will be to construct a pair of states and then apply condition (4.4) in Lemma 1 to get a general necessary condition. Consider any Γ for which σ^* is implementable. Consider two states s and s', both belonging to $(0, \bar{s}]^n$, such that $s = (s_1 = x, s_2 = 2x, \ldots, s_n = nx)$ and $s' = (s'_1 = nx, s'_2 = x, \ldots, s' = (n-1)x)$. Applying the Lemma 1 we get the *general necessary condition* for first best implementability which is given by

$$\Delta^{n-1}(x)F(w_1(n)x) = \Delta^{n-1}(x)F(w_2(n)x) + \Delta^{n-1}(x)F(w_3(n)x) \tag{4.5}$$

where $w_1(n) = \frac{(n-1)n}{2}$, $w_2(n) = \frac{(n-1)(n+2)}{2}$ and $w_3(n) = \frac{n(n+1)}{2}$. The final step is to apply the fact that the cost function is sufficiently well behaved and derive the result using this general necessary condition.

Observe that for simple sequencing problems with two agents, first best implementability is impossible.[4] With three agents, all simple sequencing problems with linear cost function are

[4] This is obvious from condition (4.5). Note that sufficient well-behavedness of F is not required for this impossibility.

first best implementable. For four agents, consider the class of simple sequencing problems $\Gamma^* = \langle \mathbf{N} = \{1, 2, 3, 4\}, F^*, (0, \overline{s}] \rangle$ where $F^*(x) = a_1 x + a_2 x^2$ for all $x \in (0, n\overline{s}]$ and only one of the following two conditions holds: (1) $a_1 > 0$ and $a_2 = 0$ and (2) $a_1 > 0$, $a_2 < 0$, $\overline{s} < \infty$ and $a_1 \geq -2na_2\overline{s}$. It is easy to verify that this class is first best implementable. One can similarly obtain the class of first best implementable simple sequencing problems with more than four agents. Thus, there exists non-linear cost functions for which an implementable simple sequencing problem is also first best implementable.

REMARK 1: The requirement of polynomial cost of order $(n-2)$ for first best implementability of a simple sequencing problem is 'similar' to the conditions obtained in Mitra (2001)(a) for a queueing problem. This is because of the necessity of condition (4.4) for budget balancedness of both VCG and Generalized VCG mechanisms. In the sequencing problems considered in Mitra (2002), due to the presence of individual specific cost parameter, first best was possible only with linear cost. Since this individual specific cost parameter is absent for simple sequencing problems, first best can be achieved for some non-linear cost functions as well.

Why is a polynomial cost of order $(n-2)$ important for first best implementability? To answer this question we need to interprete condition (4.4) (that is $\sum_{P \subseteq \mathbf{N}} (-1)^{|P|} \mathbf{V}(s(P)) = 0$). It states that the weighted total group externality must add up to zero while moving from any state $s = (s_1, \ldots, s_n)$ to any other state $s' = (s'_1, \ldots, s'_n)$ where the weights are (-1) for groups (P) with odd number of members and are 1 for groups (P) with even number of members. Polynomial cost of order $(n-2)$ satisfies a particular type of negative weighted group externality that results from condition (4.4). Consider two true states $s = (s_1, s_2 = a, \ldots, s_n = a) \in (0, \overline{s}]^n$ and $\hat{s} = (s_1, \hat{s}_2 = b, \ldots, \hat{s}_n = b) \in (0, \overline{s}]^n$ where $b < s_1 < a$. In state s, $\sigma_1^*(s) = 1$ and the cost of agent 1 is $F(s_1)$ and in state $\hat{s}$, $\sigma_1^*(\hat{s}) = n$ and her cost is $F((n-1)b + s_1)$. Starting from the state s, consider a state $s(P)$ where actual processing time of any $P \subseteq (\mathbf{N} - \{1\})$ agents changes from a to b. While moving from state s to state $s(P)$, the queue position of agent 1 changes from $\sigma_1^*(s) = 1$ to $\sigma_1^*(s(P)) = |P| + 1$ and hence her cost changes from $F(s_1)$ to $F(|P|b + s_1)$.[5] This increase in agent 1's cost is due to the negative externality imposed by agents of the set P. Since we can select a group of size $|P|$ from the set $\mathbf{N} - \{1\}$ in $\binom{n-1}{|P|}$ ways, $\binom{n-1}{|P|} F(|P|b + s_1)$ is the total cost that can result for agent 1 if we consider negative externality, imposed on her, by all possible groups from the set $\mathbf{N} - \{1\}$ of size $|P|$. Therefore, $\sum_{P \subseteq \mathbf{N} - \{1\}} (-1)^{|P|} \binom{n-1}{|P|} F(|P|b + s_1)$ is *the weighted aggregate negative group externality*, that can be imposed on agent 1 by all possible groups of different sizes (from the set $\mathbf{N} - \{1\}$), while moving from state s to $\hat{s}$. Here the weights are 1 if the group size is even and are -1 if the group size is odd. If the cost

[5] Note that $s(P) = s$ if $P = \phi$ and $s(P) = \hat{s}$ if $P = \mathbf{N} - \{1\}$.

function is a polynomial of order $(n-2)$ then this weighted negative group externality is zero, that is $\sum_{P\subseteq \mathbf{N}-\{1\}}(-1)^{|P|}\binom{n-1}{|P|}F(|P|b+s_1) = \Delta^{n-1}(b)F(s_1) = [\Pi_{i\neq 1}\Delta(\hat{s}_i)]\,F(s_1) = 0$.[6] Observe that this group externality condition guarantees that the general necessary condition (given by condition (5.12)) is satisfied. Using Lemma 2, it is easy to verify that, in general, for all $j \in \mathbf{N}$ and for all pairs of states $s' = (s'_j, s'_{-j})$ and $\hat{s}' = (s'_j, \hat{s}'_{-j})$, such that $\sigma^*_j(s') = 1$ and $\sigma^*_j(\hat{s}') = n$, we get $[\Pi_{i\neq j}\Delta(\hat{s}'_i)]\,F(s'_j) = 0$ if the cost function is a polynomial of order $(n-2)$. *Thus, a polynomial of order $(n-2)$ guarantees that the weighted aggregate negative group externality that can be imposed on any agent j, by all other agents and with all possible groups, while moving from a state where agent j is first in the queue to a state where she is last in the queue, must add up to zero.* It is this group externality condition that guarantees first best for a simple sequencing problem.

5 Conclusions

In this paper we have analyzed simple sequencing problems with interdependent costs. One important observation of this paper is that the Cubical Array Lemma, which is necessary for first best implementability of VCG mechanisms, is also necessary for achieving the same with Generalized VCG mechanism in simple sequencing problems. Even for the general class of decision problems, that was analyzed in Bergemann and Välimäki (2002), the Generalized VCG mechanism satisfies first best implementability only if it satisfies the Cubical Array Lemma.[7] We agree that the necessity of concave cost functions for implementability and polynomial cost of order $(n-2)$ for first best implementability with sufficiently well behaved costs functions are quite restrictive as it rules out many interesting costs functions like exponential functions. On the brighter side this simple problem leaves many questions unanswered. How will the results differ if the cost functions are different for different agents? What happens if one considers discounted costs? What happens if there are multiple facilities? These questions can be taken up for future research.

APPENDIX: PROOFS

PROOF OF PROPOSITION 1: We first consider two states that differ by the type of agent $j \in \mathbf{N}$. We then apply the implementability conditions to get the result. We consider any five numbers (a, s_j, s_i, s'_j, b) all belonging to $(0, \overline{s}]$ such that $a \leq s_j < s_i < s'_j \leq b$. Using

[6] Note that these weights (that is 1 if group size is even and -1 if the group size is odd) is due to condition (4.4) in Lemma 1.

[7] This can easily be seen from the definition of the class of Generalized VCG mechanisms given by conditions (14) and (17) in Bergemann and Välimäki (2002).

these numbers we construct the states $s = (s_j, s_{-j})$ and $s' = (s'_j, s_{-j})$, where $s_p = a$ for all $p \in P' \subseteq \mathbf{N} - \{j, i\}$ and $s_q = b$ for all $q \in S' = \mathbf{N} - P' - \{j, i\}$. From the construction and from the efficiency criterion, it follows that $\sigma^*_j(s) = |P'| + 1 < \sigma^*_i(s) = |P'| + 2$ and $\sigma^*_j(s') = |P'| + 2 > \sigma^*_i(s') = |P'| + 1$. Therefore, we are considering two states $s = (s_j, s_{-j})$ and $s' = (s'_j, s_{-j})$ such that agent i is the immediate successor of agent j in state s and is the immediate predecessor of agent j in state s'. Applying the implementability condition in states $s = (s_j, s_{-j})$ and $s' = (s'_j, s_{-j})$, for agent j, we get $U_j(\sigma^*(s), t_j(s); s) \geq U_j(\sigma^*(s'), t_j(s'); s)$ and $U_j(\sigma^*(s'), t_j(s'); s') \geq U_j(\sigma^*(s), t_j(s); s')$. Simplifying these two conditions we get that the difference $t_j(s'_j, s_{-j}) - t_j(s)$ must lie in $[\Delta(s_i)F(a|P'| + s'_j), \Delta(s_i)F(a|P'| + s_j)]$ where $a|P'| = \sum_{p \in \mathcal{P}_j(\sigma^*(s))} s_p$. Hence, it is necessary that $\Delta(s_i)F(a|P'| + s'_j) \leq \Delta(s_i)F(a|P'| + s_j)$. Observe that this inequality must be satisfied for all possible selection of five numbers (a, s_j, s_i, s'_j, b) all belonging to $(0, \bar{s}]$ such that $a \leq s_j < s_i < s'_j \leq b$ and for all possible selection of $P' \subseteq \mathbf{N} - \{i, j\}$ satisfying $P' \cup S' = \mathbf{N} - \{i, j\}$ and $P' \cap S' = \phi$. This implies concavity of F since $s_j < s'_j$. ■

PROOF OF PROPOSITION 2: To prove the necessity part of the Proposition we derive the explicit form of the transfer satisfying conditions (i) and (ii) in the definition of the Generalized VCG transfer. We fix the announcement of all agents except agent j at $\hat{s}_{-j}$. Let $\hat{s}_j$ be the announcement of agent j such that she gets the first queue position, that is $\sigma^*_j(\hat{s}) = 1$. Using condition (i) in the definition of the Generalized VCG transfer we fix $t_j(\hat{s}) = h_j(\hat{s}_{-j})$ for $\sigma^*_j(\hat{s}) = 1$ where $h_j(\hat{s}_{-j})$ is an arbitrary function of $\hat{s}_{-j}$. Note that from condition (i) it also follows that for all $s'_j \in S_j^{\sigma^*_j(\hat{s})}$, the transfer of agent j must remain unchanged at $h_j(\hat{s}_{-j})$. Now consider two states $\bar{s} = (s_j, \hat{s}_{-j})$ and $\bar{s}' = (s'_j, \hat{s}_{-j})$ such that $\sigma^*_j(\bar{s}) = \sigma^*_j(\bar{s}') - 1$ and $s_j \neq s'_j$. From efficiency of decision it follows that there exists an agent p such that $s_j \leq \hat{s}_p \leq s'_j$. From efficiency it also follows that at $\tilde{s}_j = \hat{s}_p$, $\sum_{i \in \mathbf{N}} F(S_i(\sigma^*(\bar{s}); \tilde{s}_j, \hat{s}_{-j})) = \sum_{i \in \mathbf{N}} F(S_i(\sigma^*(\bar{s}'); \tilde{s}_j, \hat{s}_{-j}))$. Using these observations and simplifying (3.1) in the definition of the Generalized VCG mechanism we get

$$t_j(\bar{s}') - t_j(\bar{s}) = \Delta(\hat{s}_p)F(S_p(\sigma^*(\bar{s}); \bar{s}))(= V_p(\bar{s})) \tag{5.6}$$

Solving (5.6) recursively, by using $t_j(\hat{s}) = h_j(\hat{s}_{-j})$ for $\sigma^*_j(\hat{s}) = 1$, we get the transfer given by condition (3.2). The sufficiency part of the Proposition is now obvious. ■

PROOF OF PROPOSITION 3: Observe that to prove Proposition 3, it is enough to prove the second statement in the Proposition, by making use of the fact that the cost function is strictly increasing and concave. We start by proving the *necessity* of the Proposition. Consider a simple sequencing problem $\Gamma = \langle \mathbf{N}, F, (0, \bar{s}] \rangle$. Let $\mathbf{M} = \langle \sigma^*, \mathbf{t} \rangle$ be the mechanism that implements Γ. We assume (without loss of generality) that the implementable transfer is of the following form: $t_j(s) = \sum_{p \in \mathcal{P}_j(\sigma^*(s))} \Delta(s_p)F(S_p(\sigma^*(s); s)) + h_j(s)$. To prove the necessity part of the Proposition, we prove that for all $j \in \mathbf{N}$ and for all *true* $s_{-j} \in (0, \bar{s}]^{n-1}$, $h_j(s_j, s_{-j}) = h_j(s'_j, s_{-j})$

for all s_j and s'_j in $(0, \bar{s}]$.

STEP [1]: Consider first the case where s_j and s'_j are such that $\sigma^*(s_j, s_{-j}) = \sigma^*(s'_j, s_{-j})$. From the implementability requirement for agent $j \in \mathbf{N}$ in states $s = (s_j, s_{-j})$ and $s' = (s'_j, s_{-j})$ it follows that $U_j(\sigma^*(s), t_j(s); s) \geq U_j(\sigma^*(s'), t_j(s'); s)$ and $U_j(\sigma^*(s'), t_j(s'); s') \geq U_j(\sigma^*(s), t_j(s); s')$. Simplifying, the inequalities using $\sigma^*(s_j, s_{-j}) = \sigma^*(s'_j, s_{-j})$, $\mathcal{P}_j(\sigma^*(s_j, s_{-j})) = \mathcal{P}_j(\sigma^*(s'_j, s_{-j}))$ and using the general transfer $t_j(.)$, specified above, we get $0 \leq h_j(s_j, s_{-j}) - h_j(s'_j, s_{-j}) \leq 0$. Therefore, if s_j and s'_j are such that $\sigma^*(s_j, s_{-j}) = \sigma^*(s'_j, s_{-j})$, then $h_j(s_j, s_{-j}) = h_j(s'_j, s_{-j})$.

STEP [2]: Now consider the case where s_j and s'_j are such that $\sigma^*(s_j, s_{-j}) \neq \sigma^*(s'_j, s_{-j})$, $|\sigma^*_j(s_j, s_{-j}) - \sigma^*_j(s'_j, s_{-j})| = 1$ and hence $||\mathcal{P}_j(\sigma^*(s_j, s_{-j}))| - |\mathcal{P}_j(\sigma^*(s'_j, s_{-j}))|| = 1$. We have two possible sub-cases-(i) $\mathcal{P}_j(\sigma^*(s'_j, s_{-j})) - \mathcal{P}_j(\sigma^*(s_j, s_{-j})) = \{q'\}$ where $s_j \leq s_{q'} \leq s'_j$ (with at least one strict inequality) and (ii) $\mathcal{P}_j(\sigma^*(s_j, s_{-j})) - \mathcal{P}_j(\sigma^*(s'_j, s_{-j})) = \{p'\}$ where $s'_j \leq s_{p'} \leq s_j$ (with at least one strict inequality). We first consider sub-case (i). Applying the implementability requirement for agent $j \in \mathbf{N}$ and simplifying it, using the conditions in sub-case (i), we get $h_j(s'_j, s_{-j}) - h_j(s_j, s_{-j}) \in [A(s'_j), A(s_j)]$ where the function $A(x) = \Delta(s_{q'})F(\sum_{p \in \mathcal{P}_j(\sigma^*(s_j, s_{-j}))} s_p + x) - \Delta(s_{q'})F(\sum_{p \in \mathcal{P}_j(\sigma^*(s_j, s_{-j}))} s_p + s_{q'})$. Note that $A(x)$ is continuous and non-increasing in $x \in [s_j, s'_j]$ due to concavity of F. Moreover, $A(s'_j) \leq 0$, $A(s_j) \geq 0$ and $A(s_{q'}) = 0$. For all $\bar{s}_j \in [s_j, s_{q'})$, $h_j(\bar{s}_j, s_{-j}) = h_j(s_j, s_{-j})$ because of $\sigma^*(s_j, s_{-j}) = \sigma^*(\bar{s}_j, s_{-j})$ and Step [1]. Similarly, for all $\tilde{s}_j \in (s_{q'}, s'_j]$, $h_j(\tilde{s}_j, s_{-j}) = h_j(s'_j, s_{-j})$ since $\sigma^*(s'_j, s_{-j}) = \sigma^*(\tilde{s}_j, s_{-j})$. Choosing $\bar{\varepsilon} = \min_{x \in \{s_j, s_{j'}\}} |s_{q'} - x|$, we have shown that $\delta(\varepsilon) = h_j(s_{q'} - \varepsilon, s_{-j}) - h_j(s_{q'} + \varepsilon, s_{-j}) = const$ $\forall \varepsilon \in (0, \bar{\varepsilon})$. By continuity of $A(x)$ and since $\delta(\varepsilon) \in [A(s_{q'} + \varepsilon), A(s_{q'} - \varepsilon)]$, we get the result that $\delta(\varepsilon) = 0 \; \forall \varepsilon \in (0, \bar{\varepsilon})$. Thus, $h_j(s'_j, s_{-j}) = h_j(s_j, s_{-j})$. Subcase (ii) is analogous to subcase (i).

STEP [3...n]: For $\dot{s}_j$ and $\dot{s}'_j$ such that $|\sigma^*_j(\dot{s}_j, s_{-j}) - \sigma^*_j(\dot{s}'_j, s_{-j})| = k \in \{2, \ldots, n-1\}$ we apply the argument $|\sigma^*_j(s_j, s_{-j}) - \sigma^*_j(s'_j, s_{-j})| = 1$ inductively to get the result.

We now prove the *sufficiency* part of the Proposition. Let s_{-j} be the true processing time of all agents except j. We define the benefit of agent $j \in \mathbf{N}$, when she reports s'_j, given her true type s_j as $B(s'_j, s_j)$ which is given by $B(s'_j, s_j) = U_j(\sigma^*(s'), t_j(s'); s) - U_j(\sigma^*(s), t_j(s); s)$. Here $s = (s_j, s_{-j})$ and $s' = (s'_j, s_{-j})$. To prove the Proposition we will prove that for all $s'_j \in (0, \bar{s}]$ and for all $s_j \in (0, \bar{s}]$, $B(s'_j, s_j) \leq 0$. There are two possible sub-cases: (a) $\mathcal{P}_j(\sigma^*(s')) \subset \mathcal{P}_j(\sigma^*(s))$ and (b) $\mathcal{P}_j(\sigma^*(s)) \subseteq \mathcal{P}_j(\sigma^*(s'))$. For sub-case (a), define $\bar{P}_j = \mathcal{P}_j(\sigma^*(s)) - \mathcal{P}_j(\sigma^*(s'))$. Here we get $\sigma^*_j(s) > \sigma^*_j(s')$ and the benefit of agent j is $B(s'_j, s_j) = \Delta\left(\sum_{q \in \bar{P}_j} s_q\right) F\left(\sum_{p \in \mathcal{P}_j(\sigma^*(s'))} s_p + s_j\right) - \sum_{q \in \bar{P}_j} \Delta(s_q) F\left(\sum_{r \in \mathcal{P}_q(\sigma^*(s))} s_r + s_q\right)$. By repeatedly applying the relation $\Delta(h_1 + h_2)F(x) = \Delta(h_1) F(x) + \Delta(h_2) F(x + h_1)$ we get $\Delta\left(\sum_{i=1}^n h_i\right) F(x) = \sum_{i=1}^n \Delta(h_i) F\left(x + \sum_{j=1}^i h_j\right)$. Applying this relation on the first term of $B(s'_j, s_j)$ we get $\Delta\left(\sum_{q \in \bar{P}_j} s_q\right) F\left(\sum_{p \in \mathcal{P}_j(\sigma^*(s'))} s_p + s_j\right) = \sum_{q \in \bar{P}_j} \Delta(s_q) F\left(\sum_{r \in \mathcal{P}_q(\sigma^*(s))} s_r + s_j\right)$. Thus, the benefit of agent j's from misreporting is given by $B(s'_j, s_j) = \sum_{q \in \bar{P}_j} \Delta(s_q) \left[F\left(\sum_{r \in \mathcal{P}_q(\sigma^*(s))} s_r + s_j\right) - F\left(\sum_{r \in \mathcal{P}_q(\sigma^*(s))} s_r + s_q\right)\right]$. It is obvious that $B(s'_j, s_j) \leq 0$ since $s_q \leq s_j$ for all $q \in \bar{P}_j$ and F is concave. The proof of sub-case (b) is analogous and thus omitted. ■

PROOF OF LEMMA 2: For notational simplicity let F^k represent any polynomial function of order $k(= 0, 1, \ldots)$. Therefore, $F^k(x) = \sum_{i=0}^{k} b_i x^i$ for all x in the domain of F^k. It is quite easy to see that for any polynomial function F^k of order k we get the following: (1) For all $\{\alpha, x\} \in \mathbf{R}^2$, $\Delta(\alpha)F^k(x) = F^k(x+\alpha) - F^k(x) = \tilde{F}^{k-1}(x)$ where $\tilde{F}^{k-1}$ is a polynomial function of order $(k-1)$. We now apply an induction argument to derive the result. For $m = 0$, $F^0(x) = b_0$ and $\Delta(a_1)F^0(x) = b_0 - b_0 = 0$. Thus, Lemma 2 holds for $m = 0$. We assume that Lemma 2 holds for $m = m_0$, that is, for all $\{a_1, \ldots, a_{m_0+1}, x\}$, $\left[\Pi_{r=1}^{m_0+1}\Delta(a_r)\right] F^{m_0}(x) = 0$ where F^{m_0} is any polynomial function of order m_0. We will now have to show that Lemma 2 also holds for $m = m_0+1$. Observe that $\left[\Pi_{r=1}^{m_0+2}\Delta(a_r)\right] F^{m_0+1}(x) = \left[\Pi_{r=1}^{m_0+1}\Delta(a_r)\right] \Delta(a_{m_0+2})F^{m_0+1}(x)$. From (1) we get $\Delta(a_{m_0+2})F^{m_0+1}(x) = \tilde{F}^{m_0}(x)$. Thus, $\left[\Pi_{r=1}^{m_0+2}\Delta(a_r)\right] F^{m_0+1}(x) = \left[\Pi_{r=1}^{m_0+1}\Delta(a_r)\right] \tilde{F}^{m_0}(x)$. Since the Lemma is true for $m = m_0$ we get $\left[\Pi_{r=1}^{m_0+1}\Delta(a_r)\right] \tilde{F}^{m_0}(x) = 0$. Thus, $\left[\Pi_{r=1}^{m_0+2}\Delta(a_r)\right] F^{m_0+1}(x) = 0$. ■

PROOF OF THEOREM 1: We first prove the first part of the Theorem. To do that we construct a particular Generalized VCG mechanism for a simple sequencing problem with polynomial cost function of order $(n-2)$ and show that the transfers add up to zero for all possible processing time vectors. For an implementable simple sequencing problem with a polynomial cost of order $(n-2)$ or less, consider the Generalized VCG mechanism $\mathbf{M}^* = \langle \sigma^*, \mathbf{t}^* \rangle$ where for all $j \in \mathbf{N}$ and for all s_{-j},

$$h_j^*(s_{-j}) = -\sum_{i \neq j} g_{ij}(s_{-j}) \tag{5.7}$$

Here $g_{ij}(.)$ is a function defined in the following way:

$$g_{ij}(s_{-j}) = \sum_{r=1}^{\sigma_i^*(s_{-j})} (-1)^{\sigma_i^*(s_{-j})-r} \left\{ \frac{(\sigma_i^*(s_{-j})-r)!(n-\sigma_i^*(s_{-j})-1)!}{(n-r-1)!} \right\} z_{ir}(s_{-j}) \tag{5.8}$$

where $z_{ir}(s_{-j}) = \sum_{\mathcal{P}_{i,r-1}(\sigma^*(s_{-j})) \subset \mathcal{P}_i(\sigma^*(s_{-j}))} \Delta(s_i) F(\sum_{q \in \mathcal{P}_{i,r-1}(\sigma^*(s_{-j}))} s_q + s_i)$ and $\mathcal{P}_{i,\alpha}(\sigma^*(s_{-j}))$ is an α-element subset of $\mathcal{P}_i(\sigma^*(s_{-j}))$.

STEP [1]: We first prove $\sum_{j \neq i} g_{ij}(s_{-j}) = (n - \sigma_i^*(s))\Delta(s_i)F(S_i(\sigma^*(s); s))$ for all $\sigma_i^*(s) \neq n$. Since the sum $\sum_{j \neq i} g_{ij}(s_{-j}) = \sum_{\substack{j \neq i \\ j \notin \mathcal{P}_i(\sigma^*(s_{-j}))}} g_{ij}(s_{-j}) + \sum_{j \in \mathcal{P}_i(\sigma^*(s_{-j}))} g_{ij}(s_{-j})$, we simplify each of these two sums in separate steps. We first consider the sum $\sum_{\substack{j \neq i \\ j \notin \mathcal{P}_i(\sigma^*(s_{-j}))}} g_{ij}(s_{-j})$. Observe that from the efficient rule we get $\sigma_i^*(s_{-j}) = \sigma_i^*(s)$, for all agents $j \notin \{\mathcal{P}_i(\sigma^*(s)) \cup \{i\}\}$. Also observe that each set $\mathcal{P}_{i,r-1}(\sigma^*(s))$ occurs $(n - \sigma_i^*(s))$ times in the sum $\sum_{\substack{j \neq i \\ j \notin \mathcal{P}_i(\sigma^*(s_{-j}))}} g_{ij}(s_{-j})$.

Using these two observations, we get

$$\sum_{\substack{j\neq i\\ j\notin\mathcal{P}_i(\sigma^*(s_{-j}))}} g_{ij}(s_{-j}) = \sum_{r=1}^{\sigma_i^*(s)} (-1)^{\sigma_i^*(s)-r}\left(\frac{(\sigma_i^*(s)-r)!(n-\sigma_i^*(s))!}{(n-r-1)!}\right) L(r,s) \tag{5.9}$$

where $L(r,s)=\sum_{\mathcal{P}_{i,r-1}(\sigma^*(s))\subseteq\mathcal{P}_i(\sigma^*(s))}\Delta(s_i)F\left(\sum_{q\in\mathcal{P}_{i,r-1}(\sigma^*(s))}s_q+s_i\right)$ and $\mathcal{P}_{i,\alpha}(\sigma^*(s))$ is an α-element subset of $\mathcal{P}_i(\sigma^*(s))$. We now consider the other sum $\sum_{j\in\mathcal{P}_i(\sigma^*(s_{-j}))}g_{ij}(s_{-j})$. Observe first that from efficiency condition we get $\sigma_i^*(s_{-j})=\sigma_i^*(s)-1$ for all $j\in\mathcal{P}_i(\sigma^*(s))$. Secondly, observe that each set $\mathcal{P}_{i,r-1}(\sigma^*(s))$ appears $(\sigma_i^*(s)-r)$ times in $\sum_{j\in\mathcal{P}_i(\sigma^*(s_{-j}))}g_{ij}(s_{-j})$. Using these two observations we get

$$\sum_{j\in\mathcal{P}_i(\sigma^*(s_{-j}))} g_{ij}(s_{-j}) = \sum_{r=1}^{\sigma_i^*(s)-1} (-1)^{\sigma_i^*(s)-r-1}\left(\frac{(\sigma_i^*(s)-r)!(n-\sigma_i^*(s))!}{(n-r-1)!}\right) L(r,s) \tag{5.10}$$

By adding the sums given by (5.9) and (5.10) and then simplifying it, using $(-1)^{\sigma_i^*(s)-r}+(-1)^{\sigma_i^*(s)-r-1}=0$, we get

$$\sum_{j\neq i} g_{ij}(s_{-j}) = (n-\sigma_i^*(s))\Delta(s_i)F\left(\sum_{j\in P_i(\sigma^*(s))} s_j+s_i\right) \tag{5.11}$$

Therefore, from condition (5.11) we get $\sum_{j\neq i}g_{ij}(s_{-j})=(n-\sigma_i^*(s))\Delta(s_i)F(S_i(\sigma^*(s);s))$ for all $i\in\mathbf{N}$ such that $\sigma_i^*(s)\neq n$.

STEP [2]: Now we consider $\sum_{j\neq i}g_{ij}(s_{-j})$ for agent i with $\sigma_i^*(s)=n$ and show that it is equal to zero. For any $j\neq i$ we get $\sigma_i^*(s_{-j})=n-1$ since $\sigma_i^*(s)=n$. Moreover, for any such $j\neq i$, $g_{ij}(s_{-j})=\sum_{r=1}^{n-1}(-1)^{n-1-r}z_{ir}(s_{-j})$. Since the term $z_{ir}(s_{-j})$ is given by $z_{ir}(s_{-j})=\sum_{\mathcal{P}_{i,r-1}(\sigma^*(s_{-j}))\subset P_i(\sigma^*(s_{-j}))}\Delta(s_i)F\left(\sum_{q\in\mathcal{P}_{ir}(\sigma^*(s_{-j}))}s_q+s_i\right)$, we get $g_{ij}(s_{-j})=\left[\Pi_{l\neq j}\Delta(s_l)\right]F(s_i)$. This step means that the term $g_{ij}(s_{-j})$ is equal to the $(n-1)$th order cross-partial difference of amount $\{s_l\}_{l\neq j}$ at s_i. Since F is a polynomial of order $(n-2)$, from Lemma 2 we get $g_{ij}(s_{-j})=0$. Therefore, for an agent i such that $\sigma_i^*(s)=n$, $\sum_{j\neq i}g_{ij}(s_{-j})=0$. Thus, we get $\sum_{j\neq i}g_{ij}(s_{-j})=(n-\sigma_i^*(s))\Delta(s_i)F(S_i(\sigma^*(s);s))$ for all $i\in\mathbf{N}$. Finally, we consider the sum $\sum_{j\in\mathbf{N}}h_j^*(s_{-j})$ and show that it is equal to $-\mathbf{V}(s)$. Since $\sum_{j\in\mathbf{N}}h_j^*(s_{-j})=-\sum_{i\neq j}g_{ij}(s_{-j})$, we get

$\sum_{j\in\mathbf{N}}h_j^*(s_{-j})=-\sum_{j\in\mathbf{N}}\sum_{i\neq j}g_{ij}(s_{-j})=-\sum_{i\in\mathbf{N}}\sum_{j\neq i}g_{ij}(s_{-j})$

or $\sum_{j\in\mathbf{N}}h_j^*(s_{-j})=-\sum_{i\in\mathbf{N}}(n-\sigma_i^*(s))\Delta(s_i)F(S_i(\sigma^*(s);s))$

or $\sum_{j\in\mathbf{N}}h_j^*(s_{-j})=-\mathbf{V}(s)$.

The last step guarantees condition (4.3) for the Generalized VCG mechanism $\mathbf{M}^*=\langle\sigma^*,\mathbf{t}^*\rangle$.

We now prove the second part of the Theorem. The first step will be to construct a pair of states and then apply condition (4.4) in Lemma 1 to get a general necessary condition. The final step will be to apply the fact that the cost function is sufficiently well behaved and derive the result using this general necessary condition.

STEP [1]: Consider any implementable simple sequencing problem Γ. Consider two states s and s', both belonging to $(0, \bar{s}]^n$, such that $s = (s_1 = x, s_2 = 2x, \ldots, s_n = nx)$ and $s' = (s'_1 = nx, s'_2 = x, \ldots, s' = (n-1)x)$. For this pair $\{s, s'\}$, we consider the sum $\sum_{P \subseteq \mathbf{N}} (-1)^{|P|} \mathbf{V}(s(P))$. The construction of the pair $\{s, s'\}$ is such that $\sum_{P \subseteq \mathbf{N}} (-1)^{|P|} \mathbf{V}(s(P))$ is independent of all the virtual marginal surplus terms with weights $(n - \sigma^*_j(s(P))) \in \{2, 3, \ldots, n-1\}$. Hence, $\sum_{P \subseteq \mathbf{N}} (-1)^{|P|} \mathbf{V}(s(P))$ includes all virtual marginal surplus terms with weights $(n - \sigma^*_j(s(P))) = 1$ for all $P \subseteq \mathbf{N}$. By collecting all these terms and simplifying it we get $\sum_{P \subseteq \mathbf{N}} (-1)^{|P|} \mathbf{V}(s(P)) = \sum_{k=0}^{n-2} (-1)^k \binom{n-2}{k} \{\Delta(nx - x) F(\alpha(k)x - x) - \Delta(nx) F(\alpha(k)x)\}$ where $\alpha(k) = \frac{(n-1)(n+2)}{2} - k$. Simplifying this condition using the relation $\Delta(\alpha x) F(\beta x) = \Delta((\alpha - 1)x) F((\beta + 1)x) + \Delta(x) F(\beta x)$ recursively and then by substituting $\sum_{P \subseteq \mathbf{N}} (-1)^{|P|} \mathbf{V}(s(P)) = 0$ from condition (4.4) in Lemma 1, we get

$$\Delta^{n-1}(x) F(w_1(n)x) = \Delta^{n-1}(x) F(w_2(n)x) + \Delta^{n-1}(x) F(w_3(n)x) \tag{5.12}$$

where $w_1(n) = \frac{(n-1)n}{2}$, $w_2(n) = \frac{(n-1)(n+2)}{2}$ and $w_3(n) = \frac{n(n+1)}{2}$. Condition (5.12) is a *general necessary condition* for first best implementability of any implementable simple sequencing problem.

STEP [2]: Using the restriction that the cost function F is sufficiently well behaved, we first try to simplify a term of the form $\Delta^{n-1}(x) F(wx)$. The reason for doing this is that all terms in the general necessary condition (5.12) are of this form. Observe that $\Delta^{n-1}(x) F(wx) = \sum_{k=1}^{n} (-1)^{k-1} \binom{n-1}{k-1} F((w + k - 1)x)$ where $F((w + k - 1)x) = \sum_{l=0}^{\infty} c_l((w + k - 1)x - y_0)^l = \sum_{l=0}^{n-2} c_l((w + k - 1)x - y_0)^l + \sum_{l=n-2}^{\infty} c_l((w + k - 1)x - y_0)^l$. Therefore, we have re-written $\Delta^{n-1}(x) F(wx)$ as the sum of two polynomials. The first one is a polynomial of order $(n-2)$, that is $\sum_{k=1}^{n} (-1)^{k-1} \binom{n-1}{k-1} \left\{ \sum_{l=0}^{n-2} c_l((w + k - 1)x - y_0)^l \right\}$ and the second sum is a polynomial with all higher order terms, that is $\sum_{k=1}^{n} (-1)^{k-1} \binom{n-1}{k-1} \left\{ \sum_{l=n-1}^{\infty} c_l((w + k - 1)x - y_0)^l \right\}$. We first consider the sum $\sum_{k=1}^{n} (-1)^{k-1} \binom{n-1}{k-1} \left\{ \sum_{l=0}^{n-2} c_l((w + k - 1)x - y_0)^l \right\}$ and show that it is equal to zero. By substituting $d(wx) = wx - y_0$ and by writing $((w + k - 1)x - y_0)^l$ as $(d(wx) + (k-1)x)^l$ and then taking it's Binomial expansion, we get $\sum_{k=1}^{n} (-1)^{k-1} \binom{n-1}{k-1} \left\{ \sum_{l=0}^{n-2} c_l((w + k - 1)x - y_0)^l \right\} = \sum_{l=0}^{n-2} c_l \sum_{m=0}^{l} \binom{l}{m} (d(wx))^{l-m} x^m \gamma(m)$ where $\gamma(m) = \sum_{k=1}^{n} (-1)^{k-1} \binom{n-1}{k-1} (k-1)^m$. From Euler's identity we know that $\gamma(m) = 0$ for all integers $m \in \{1, \ldots, n-2\}$.[8] *Therefore, the first polynomial of order* $(n-2)$, *that is* $\sum_{k=1}^{n} (-1)^{k-1} \binom{n-1}{k-1} \left\{ \sum_{l=0}^{n-2} c_l((w + k - 1)x - y_0)^l \right\} = 0$ *for any set of real numbers* $\{c_0, \ldots, c_{n-2}\}$. Thus, $\Delta^{n-1}(x) F(wx)$ is equal to the other polynomial with all higher order terms, i.e. $\Delta^{n-1}(x) F(wx) = \sum_{k=1}^{n} (-1)^{k-1} \binom{n-1}{k-1} \left\{ \sum_{l=n-1}^{\infty} c_l((w + k - 1)x - y_0)^l \right\}$.

[8]Euler's identity: $\sum_{q=0}^{t} (-1)^q \binom{t}{q} q^r = 0$ for all $0 \leq r < t$.

By writing $\alpha(w,m) = \sum_{k=1}^{n}(-1)^{k-1}\binom{n-1}{k-1}(w+k-1)^m$ after taking the Binomial expansion of the term $((w+k-1)x - y_0)^l$ in the sum and then simplifying it we get the following expression: $\sum_{k=1}^{n}(-1)^{k-1}\binom{n-1}{k-1}\left\{\sum_{l=n-1}^{\infty} c_l((w+k-1)x - y_0)^l\right\} = \sum_{l=n-1}^{\infty} c_l \sum_{m=0}^{l}\binom{l}{m}(-y_0)^{l-m}\alpha(w,m)x^m$. We now try to evaluate the value of $\alpha(w,m)$. By taking the Binomial expansion of $(w+(k-1))^m$ we get $\alpha(w,m) = \sum_{m_0=0}^{m}\binom{m}{m_0}w^{m-m_0}\gamma(m_0)$. From Euler's identity we know that $\gamma(m_0) = 0$ for all $m_0 \le n-2$. Hence, $\alpha(w,m) = \sum_{m_0=n-1}^{m}\binom{m}{m_0}w^{m-m_0}\gamma(m_0)$. Now we calculate the value of the term $\gamma(m_0) = \sum_{k=1}^{n}(-1)^{k-1}\binom{n-1}{k-1}(k-1)^{m_0}$ for $m_0 \ge n-1$. Expanding $(k-1)^{m_0}$, using Stirling number of the second kind, we get $\gamma(m_0) = (-1)^{n-1}(n-1)!S(m_0, n-1)$.[9] Hence, we have obtained $\alpha(w,m) = (-1)^{n-1}(n-1)!G(w,m)$ where $G(w,m) = \sum_{m_0=n-1}^{m}\binom{m}{m_0}w^{m-m_0}S(m_0, n-1)$. Therefore,

$$\Delta^{n-1}(x)F(wx) = (-1)^{n-1}(n-1)!\sum_{l=n-1}^{\infty} c_l \sum_{m=n-1}^{l}\binom{l}{m}(-y_0)^{l-m}G(w,m)x^m \tag{5.13}$$

By substituting condition (5.13) in condition (5.12) and simplifying it, using $(-1)^{n-1}(n-1)! \neq 0$, we get

$$\sum_{l=n-1}^{\infty} c_l \sum_{m=n-1}^{l}\binom{l}{m}(-y_0)^{l-m}\beta(m)x^m = 0 \tag{5.14}$$

where the term $\beta(m)$ is $\beta(m) = G(w_2,m) + G(w_3,m) - G(w_1,m) = \sum_{m_0=n-1}^{m}\binom{m}{m_0}(w_2^{m-m_0} + w_3^{m-m_0} - w_1^{m-m_0})S(m_0, n-1)$. Note that $\beta(m) > 0$ since $0 < w_1 < w_2 < w_3$, $m - m_0 \ge 0$ for all $m_0 = n-1, \ldots, m$ and since $S(m_0, n-1) \ge 1$ for all integers $m_0 \ge n-1$. Therefore, using these results we get $\sum_{l=n-1}^{\infty} c_l \sum_{m=n-1}^{l}\binom{l}{m}(-y_0)^{l-m}\beta(m)x^m = \sum_{r=n-1}^{\infty} A_r x^r = 0$ where each coefficient $A_r = \sum_{l=r}^{\infty} c_l\binom{l}{r}(-y_0)^{l-r}\beta(r)$. The equation $\sum_{r=n-1}^{\infty} A_r x^r = 0$ implies that $A_r = 0$ for all $r = n-1, n, \ldots, \infty$. Therefore, using $\beta(r) > 0$, we get $B_r(= \frac{A_r}{\beta(r)}) = \sum_{l=r}^{\infty} c_l\binom{l}{r}(-y_0)^{l-r} = 0$ for all $r = n-1, n, \ldots, \infty$. Using the identity $\binom{l}{r} + \binom{l}{r+1} = \binom{l+1}{r+1}$ and simplifying $D_r = B_r + (-y_0)B_{r+1}(= 0)$ we get $D_r = \sum_{l=r}^{\infty} c_l\binom{l+1}{r+1}(-y_0)^{l-r} = 0$ for all $r = n-1, n, \ldots, \infty$. Since $\binom{l+1}{r+1} = \frac{l+1}{r+1}\binom{l}{r}$, $r+1 \neq 0$ and $B_r = 0$, we get $\sum_{l=r}^{\infty} lc_l\binom{l}{r}(-y_0)^{l-r} = 0$ for all $r = n-1, n, \ldots, \infty$. Similarly, by considering $D'_r = D_r + (-y_0)D_{r+1} = 0$ and using $\sum_{l=r}^{\infty} lc_l\binom{l}{r}(-y_0)^{l-r} = 0$ and $B_r = 0$ for all $r = n-1, n, \ldots, \infty$, we get $\sum_{l=r}^{\infty} l^2 c_l\binom{l}{r}(-y_0)^{l-r} = 0$ for all $r = n-1, n, \ldots, \infty$.

[9] A Stirling number of the second kind $S(m_0, q)$, is defined as the coefficient of $[x]_q = x(x-1)\ldots(x-q+1)$ in the expansion of x^{m_0}, that is, $x^{m_0} = \sum_{q=0}^{m_0} S(m_0, q)[x]_q$ for every real number x and, more importantly, for every natural number m_0. Stirling number of the second kind are such that $S(m_0, 1) = S(m_0, m_0) = 1$. Moreover, these numbers are unimodal i.e. they satisfy one of the following formulae:

1. $1 = S(m_0, 1) < S(m_0, 2) < \ldots < S(m_0, M(m_0)) > S(m_0, M(m_0) - 1) > \ldots > S(m_0, m_0) = 1$ or
2. $1 = S(m_0, 1) < S(m_0, 2) < \ldots < S(m_0, M(m_0) + 1) = S(m_0, M(m_0)) > \ldots > S(m_0, m_0) = 1$

and $M(m_0+1) = M(m_0)$ or $M(m_0+1) = M(m_0)+1$ where $M(m_0) = max\{q \mid S(m_0, q) \text{ is maximum}; 1 \le q \le m_0\}$. For a better understanding see Tomescu (1985).

By continuing this way recursively, we get, for any $p = 0, 1, \ldots, \infty$, $\sum_{l=r}^{\infty} l^p c_l \binom{l}{r} (-y_0)^{l-r} = 0$ for all $r = n-1, n, \ldots, \infty$. Thus, given any $p = 0, 1, \ldots, \infty$, we also get

$$\sum_{l=r}^{\infty} (l-h)^p c_l \binom{l}{r} (-y_0)^{l-r} = 0 \tag{5.15}$$

for all $r = n-1, n, \ldots, \infty$ and for any h. Using Stirling number of the first kind, consider $E_r = \sum_{l=r}^{\infty} c_l \binom{l}{r} \left\{ \sum_{p=0}^{l-r} s(l-r,p)(l-r)^p \right\} (-y_0)^{l-r}$, for all $r = n-1, n, \ldots, \infty$.[10] From condition (5.15) it follows that $E_r = 0$ for all r, since E_r can be written as $E_r = \sum_{p=0}^{l-r} s(l-r,p) \left\{ \sum_{l=r}^{\infty} c_l \binom{l}{r} (l-r)^p (-y_0)^{l-r} \right\}$ and the second sum is zero. Simplifying the sum in the original expression of E_r we get $E_r = \frac{1}{r!} \sum_{l=r}^{\infty} l! c_l (-y_0)^{l-r} = 0$ for all $r = n-1, n, \ldots, \infty$ since by applying the properties of Stirling number of the first kind we know that $\sum_{p=0}^{l-r} s(l-r,p)(l-r)^p = (l-r)!$. Thus, we get $T_r = \sum_{l=r}^{\infty} l! c_l (-y_0)^{l-r} = 0$ for all $r = n-1, n, \ldots, \infty$. Observe that $T_r = r! c_r + (-y_0) T_{r+1} = r! c_r$ since $T_{r+1} = 0$. Moreover, since $T_r = 0$ and $r! > 0$, we get $c_r = 0$ for all $r = n-1, n, \ldots, \infty$. Hence, the general necessary condition (5.12) holds, for a cost function F of the form $F(y) = \sum_{l=0}^{\infty} c_l (y-y_0)^l$, for any selection of $\{c_0, \ldots, c_{n-2}\}$ and only if $c_l = 0$ for all $l = n-1, n, \ldots, \infty$. ■

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[10] A Stirling number of the first kind, $s(m,q)$, is the coefficient of x^q in the expansion of $[x]_m = x(x-1)\ldots(x-m+1)$, that is $[x]_m = \sum_{q=1}^{m} s(m,p)x^q$ (See Tomescu (1985)).

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