The Public Option: A non-regulatory alternative to Network Neutrality

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The Internet Landscape

- Internet Service Providers (ISPs)
- Internet Content Providers (CPs)

- Regulatory Authorities
- Users/Consumers

Net Neutrality: Some History

- Early 2005, Madison River Communications
  - Block VoIP
  - $15,000 fine
- August 2008, Comcast
  - Block Bittorrent packets
  - The FCC imposed no fine, but required Comcast to end such blocking in the year 2008.
- April 6, 2010, Comcast Vs. FCC
  - U.S. Court of Appeals ruled that the FCC has no powers to regulate any ISP.

Net Neutrality: Our Focus

- The content/application side of the two-sided market.
  - Classic example: night club
- Whether a neutral network is beneficial for end-users?

NBC BAY AREA

Netflix May Increase Your Internet Fees

Internet service providers across the country mull charging data hogs more, according to new report.

By Sajid Farooq | Thursday, Dec 1, 2011 | Updated 10:15 AM PDT

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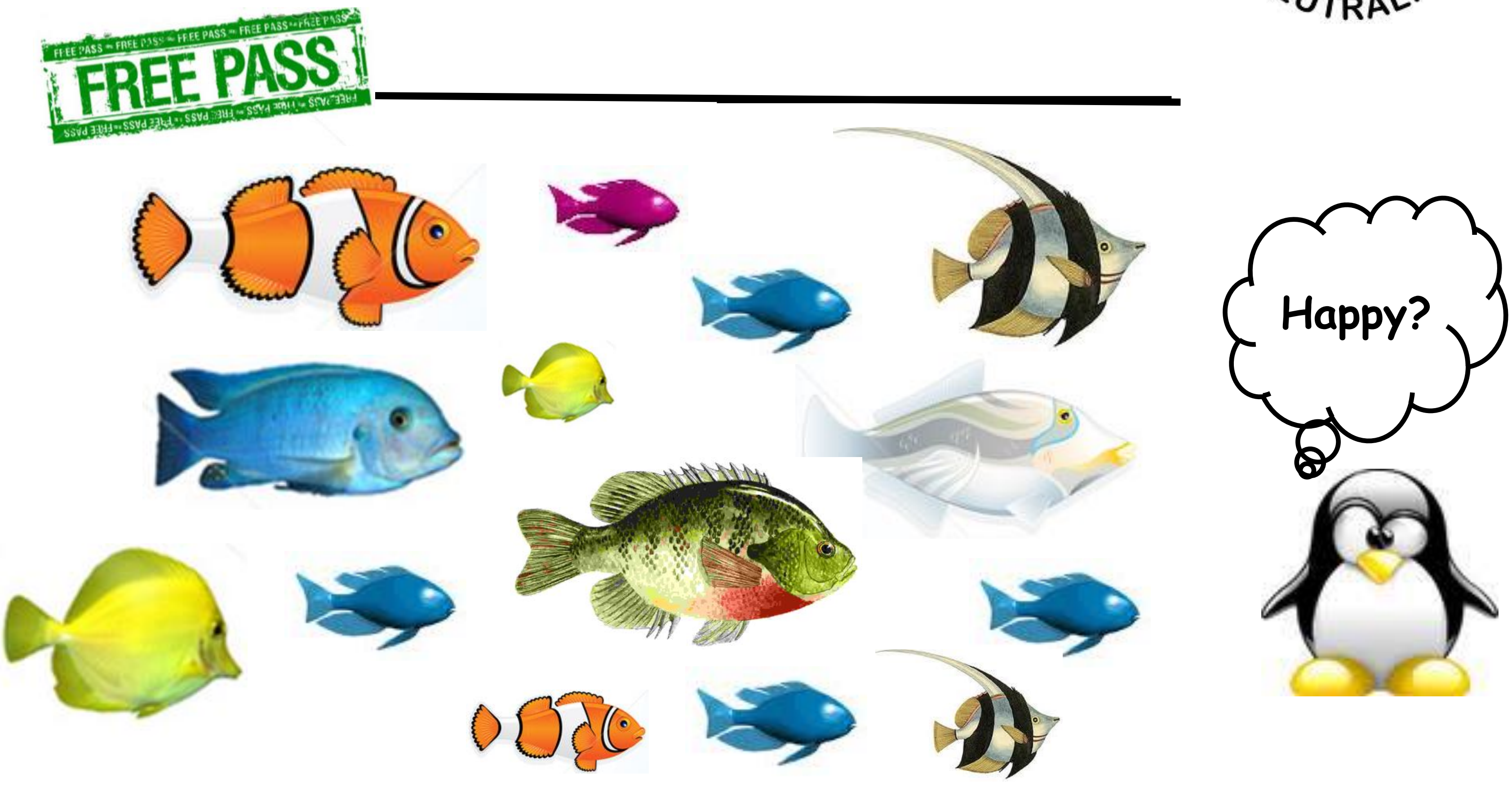
Netflix and other streaming services may end up causing Internet fees to rise in the U.S.

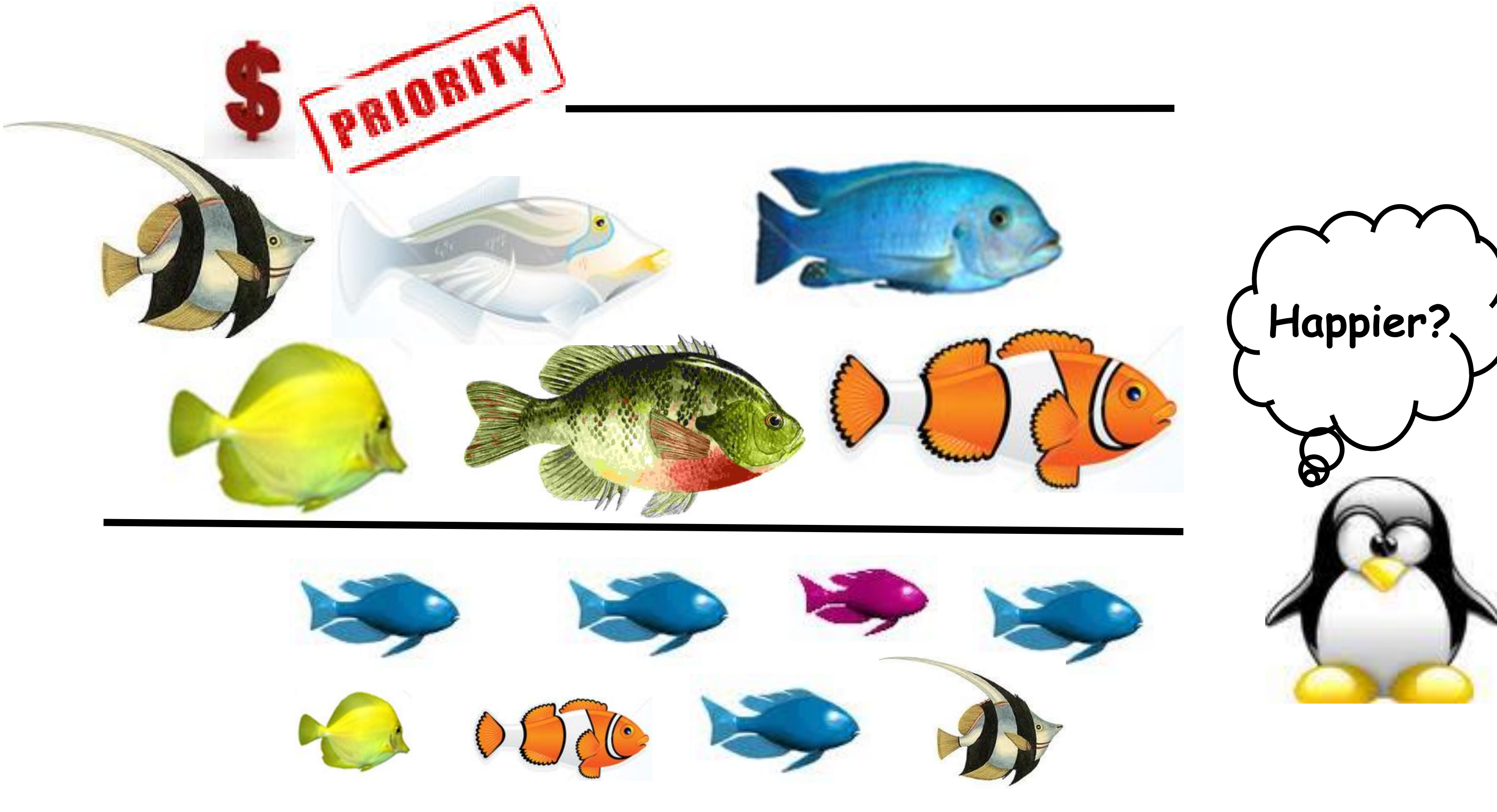
http://www.nbcbayarea.com/news/local/Netflix-May-Increase-Your-Internet-Fees-134836978.html

Network Neutrality (NN)



Paid Prioritization (PP)

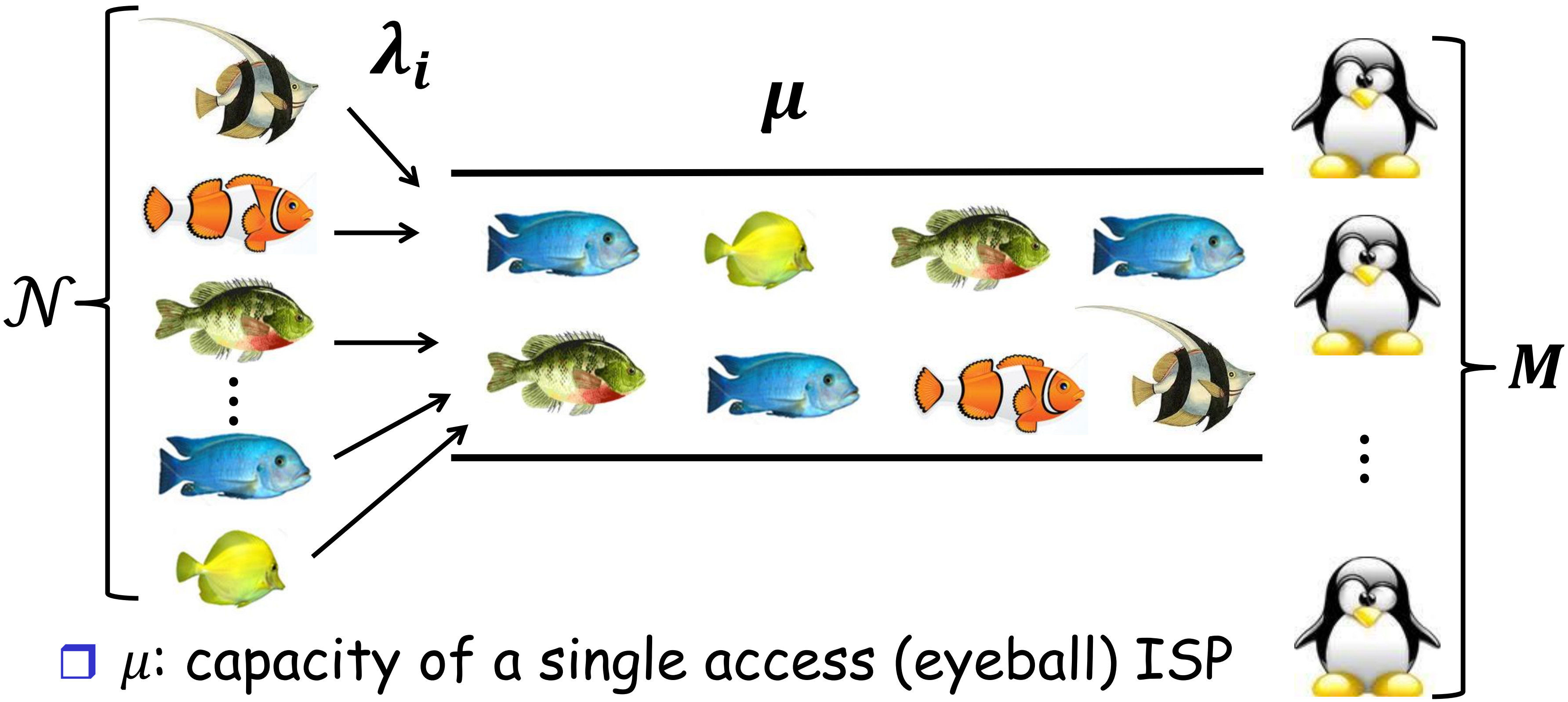
Hands Off the Internet



Highlights

- A more realistic equilibrium model of content traffic, based on
  - User demand for content
  - System protocol/mechanism
- Game theoretic analysis on user utility under different ISP market structures:
  - Monopoly, Duopoly & Oligopoly
- Regulatory implications for all scenarios and the notion of a *Public Option*

Three-party model $(M, \mu, \mathcal{N})$



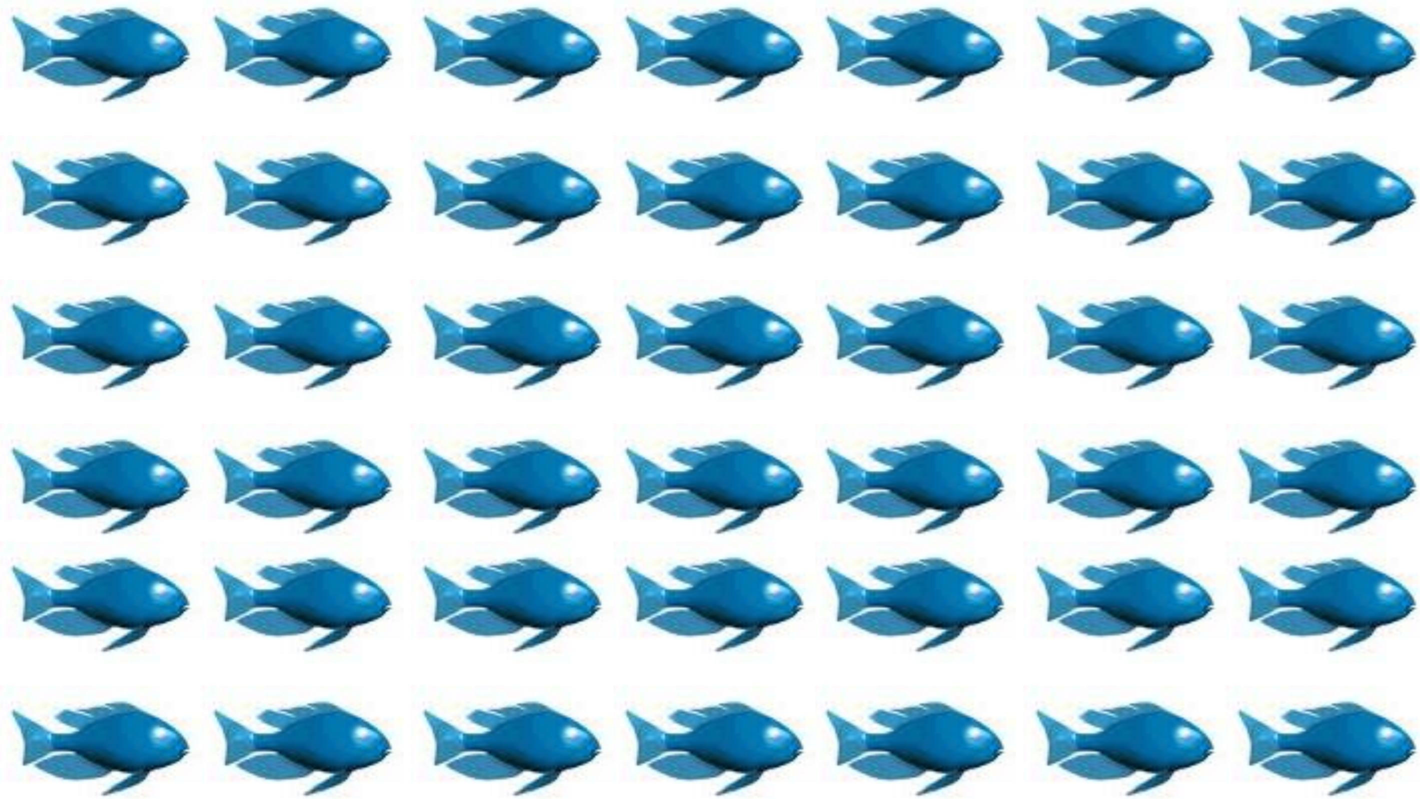
- μ: capacity of a single access (eyeball) ISP
- M: # of users of the ISP (# of active users)
- $\mathcal{N}$: set of all content providers (CPs)
- λ_i: throughput rate of CP $i \in \mathcal{N}$

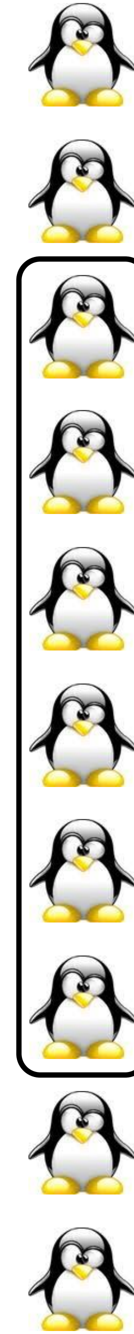
User-side: 3 Demand Factors

- Unconstrained throughput $\widehat{\theta}_i$
  - Upper-bound, achieved under unlimited capacity
  - E.g. 5Mbps for Netflix
- Popularity of the content α_i
  - Google has a larger user base than other CPs.
- Demand function of the content $D_i(\theta_i)$
  - Percentage of users still being active under the achievable throughput $\theta_i \leq \widehat{\theta}_i$

Unconstrained Throughput $\hat{\lambda}_i$

(Max) Throughput $\hat{\theta}_i (= 7Kbps)$ **User size** $M (= 10)$

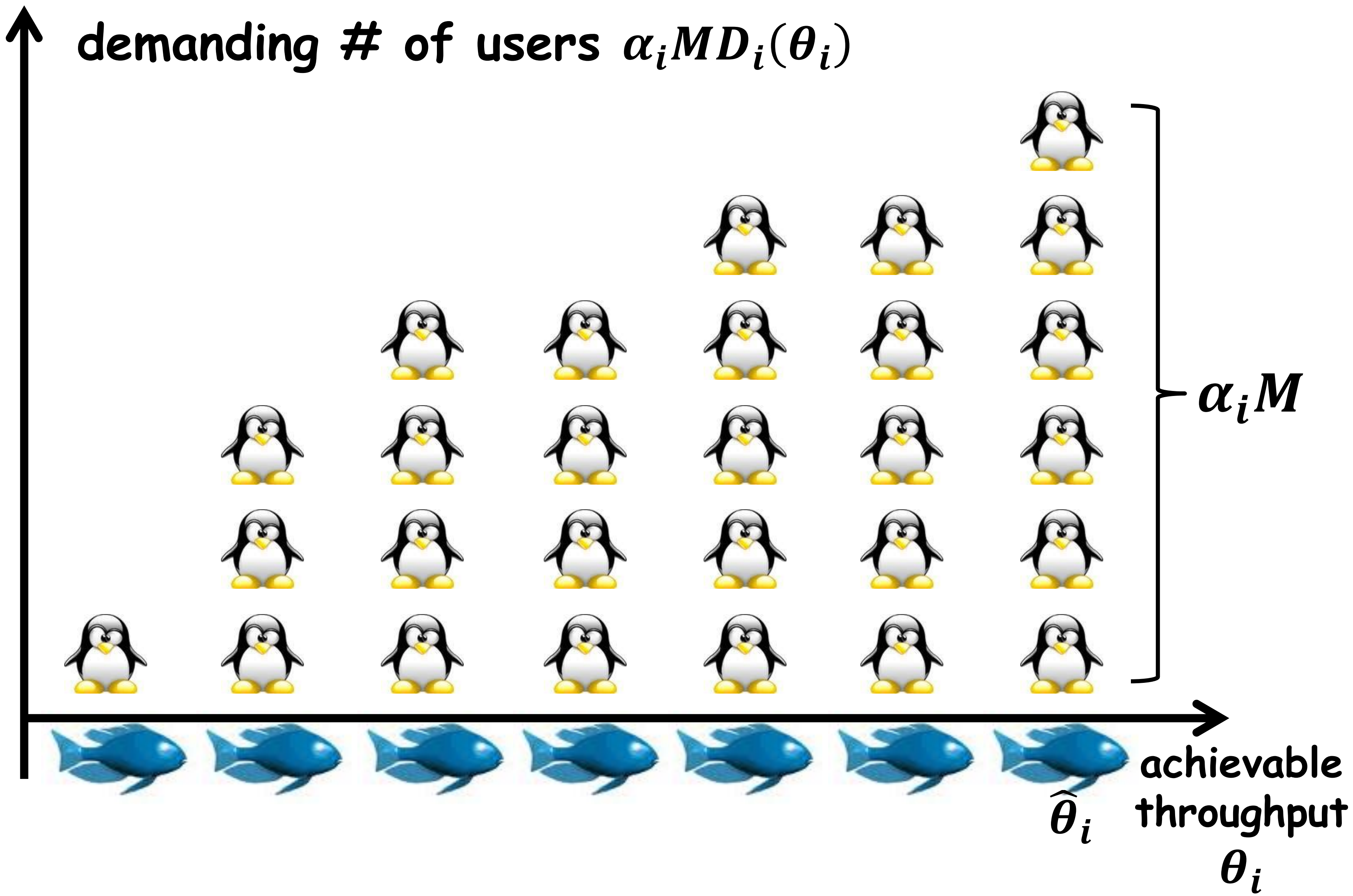




Content unconstrained throughput
$\hat{\lambda}_i = \alpha_i M \hat{\theta}_i (= 42Kbps)$

Content popularity
$\alpha_i (= 60\%)$

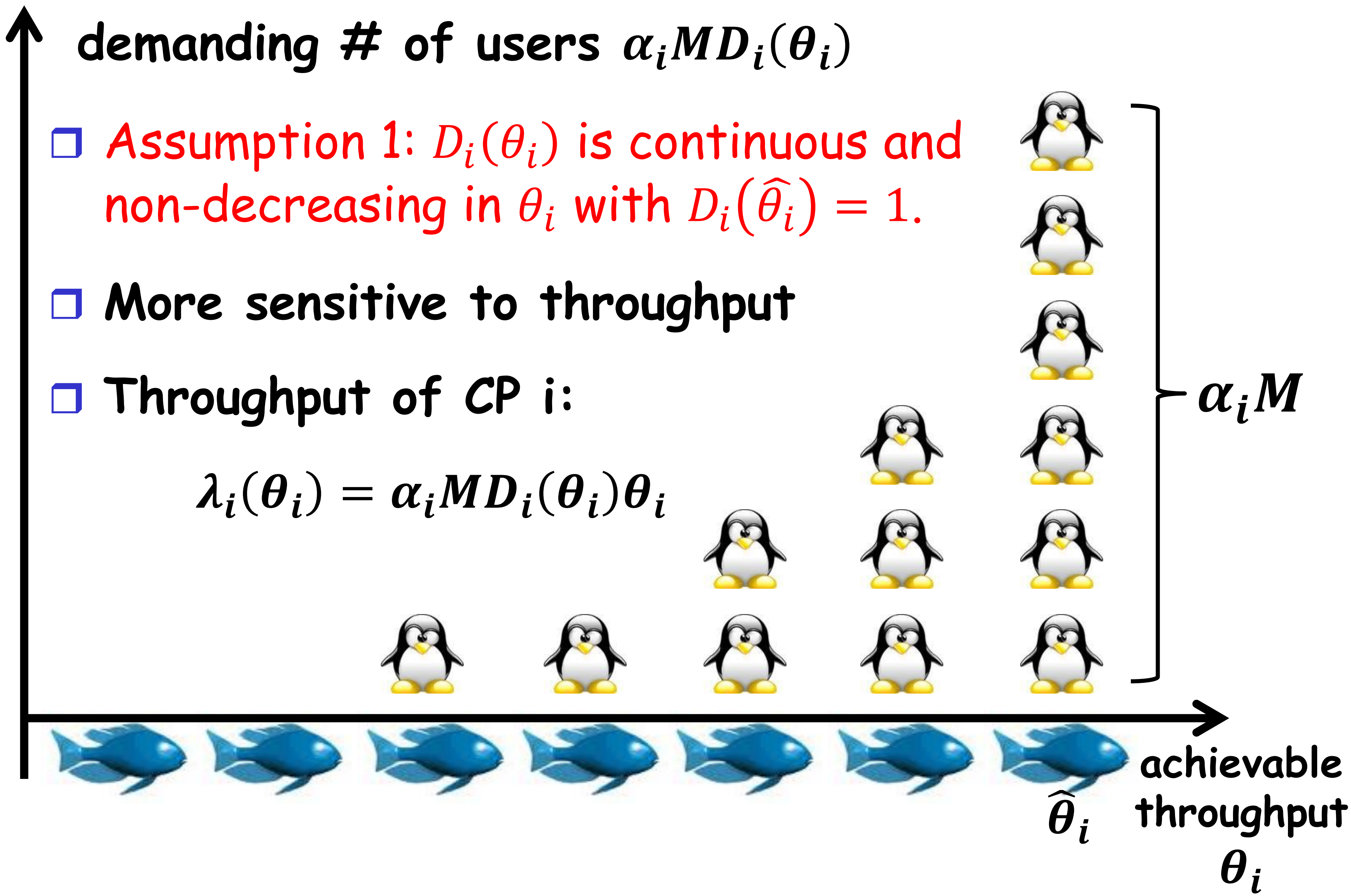
Demand Function $D_i(\theta_i)$



Demand Function $D_i(\theta_i)$

- Assumption 1: $D_i(\theta_i)$ is continuous and non-decreasing in θ_i with $D_i(\widehat{\theta}_i) = 1$.
- **More sensitive to throughput**
- **Throughput of CP i:**

$$\lambda_i(\theta_i) = \alpha_i M D_i(\theta_i)\theta_i$$



System Side: Rate Allocation

- Rate allocation mechanism $\Theta(\boldsymbol{d}, \mu)$ maps fixed demands and capacity to throughput
- Axiom 1 (Throughput upper-bound)

$$\Theta_i(\boldsymbol{d}, \mu) \leq \hat{\theta}_i$$

- Axiom 2 (Work-conserving or Pareto Opt.)

$$\lambda_{\mathcal{N}}\big(\Theta(\boldsymbol{d}, \mu)\big) = \sum_{i \in \mathcal{N}} \lambda_i(\Theta_i(\boldsymbol{d}, \mu))$$
$$= \min\left(\mu, \sum_{i \in \mathcal{N}} \hat{\lambda}_i\right)$$

Rate Allocation $\boldsymbol{\Theta}(\boldsymbol{d}, \mu)$

- Axiom 3 (Consistency) There exists a family of continuous non-decreasing functions $\widetilde{\Theta}(\gamma) = \left(\widetilde{\Theta}_i(\gamma): i \in \mathcal{N}\right)$ such that

$$\widetilde{\Theta}(\gamma_1) \neq \widetilde{\Theta}(\gamma_2), \qquad \forall \gamma_1 \neq \gamma_2.$$

For any $(\boldsymbol{d}, \mu)$, there exists a γ satisfying

$$\Theta(\boldsymbol{d}, \mu) = \widetilde{\Theta}(\gamma)$$

Uniqueness of Rate Equilibrium

$$(d^*, \vartheta) \ \ s.t. \ \begin{array}{c} d^* = D(\vartheta) \\ \vartheta = \Theta(d^*, \mu) \end{array} \quad \Leftrightarrow \quad \vartheta = \Theta(D(\vartheta), \mu)$$

- Theorem (Uniqueness): *A* system $(M, \mu, \mathcal{N})$ has a unique equilibrium $\{\theta_i : i \in \mathcal{N}\}$ (and therefore $\{\lambda_i : i \in \mathcal{N}\}$) under *A*ssumption 1 and *A*xiom 1, 2 and 3.

User demand D_i: $\theta_i \to d_i$

Rate allocation Θ: $\{d_i : i \in \mathcal{N}\}, \mu \to \{\theta_i : i \in \mathcal{N}\}$

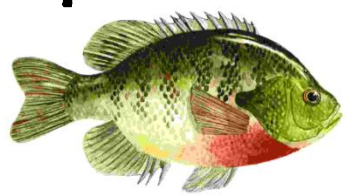
➔ Rate equilibrium $\{\vartheta_i, d_i^* : i \in \mathcal{N}\}$

ISP Paid Prioritization

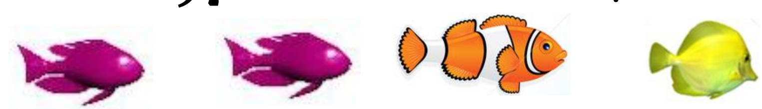
ISP Payoff: $c \sum_{i \in \mathcal{P}} \lambda_i = c\lambda_{\mathcal{P}}$

	Capacity	Charge
Premium Class $(\boldsymbol{M}, \boldsymbol{\kappa\mu}, \boldsymbol{\mathcal{P}})$	$\boldsymbol{\kappa\mu}$	$\$\boldsymbol{c}$/unit traffic
Ordinary Class $(\boldsymbol{M}, (\boldsymbol{1}-\boldsymbol{\kappa})\boldsymbol{\mu}, \boldsymbol{\mathcal{O}})$	$(\boldsymbol{1}-\boldsymbol{\kappa})\boldsymbol{\mu}$	$\boldsymbol{\$0}$









Monopolistic Analysis

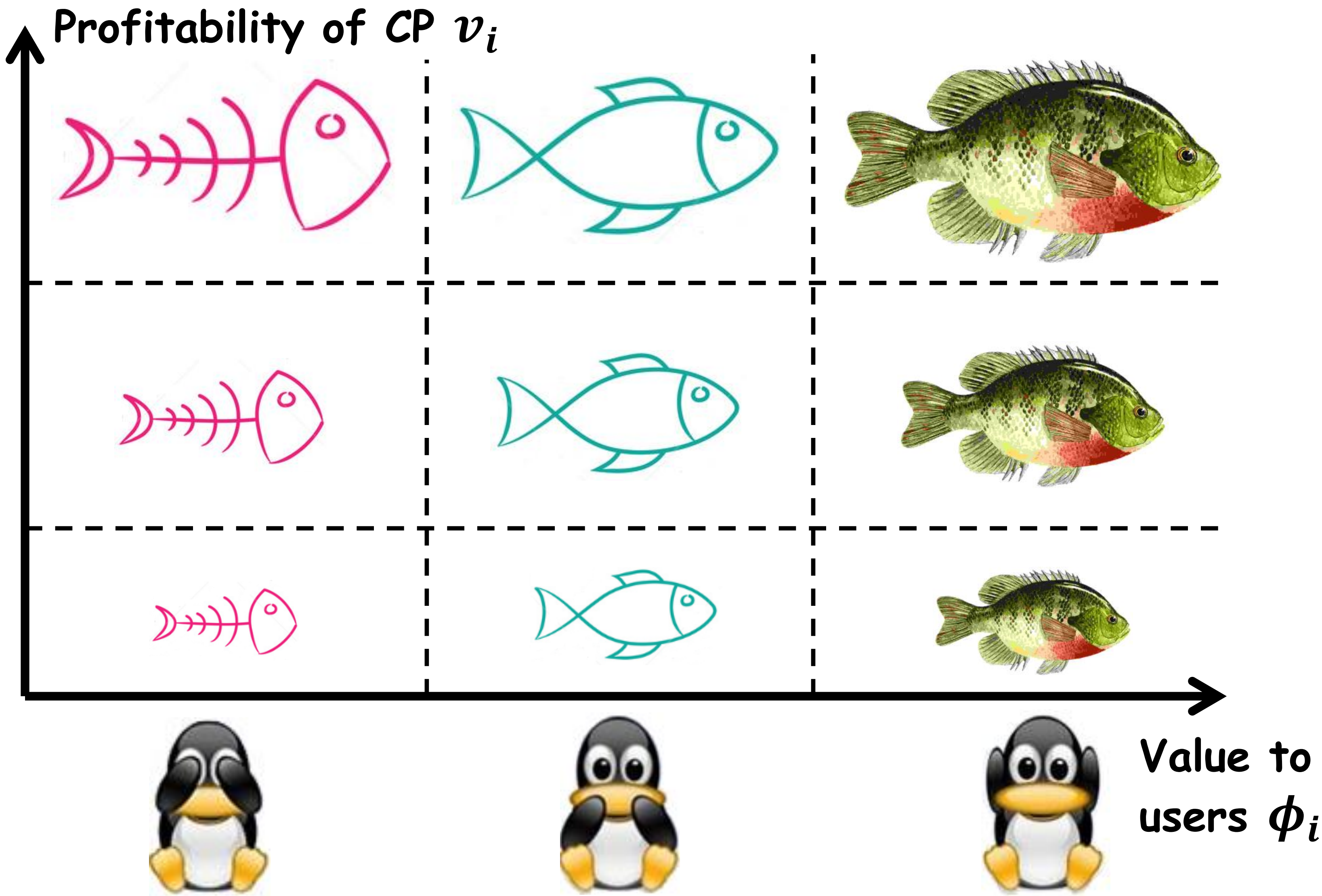
- Players: monopoly ISP I and the set of CPs $\mathcal{N}$
- A Two-stage Game Model $(M, \mu, \mathcal{N}, I)$
  - 1st stage, ISP chooses $s_I = (\kappa, c)$ announces s_I.
  - 2nd stage, CPs simultaneously choose service classes reach a joint decision $s_{\mathcal{N}} = (\mathcal{O}, \mathcal{P})$.
- Outcome (two subsystems):
  - $(M, \kappa\mu, \mathcal{P})$: set $\mathcal{P}$ (of CPs) share capacity $\kappa\mu$
  - $(M, (1-\kappa)\mu, \mathcal{O})$: set $\mathcal{O}$ share capacity $(1-\kappa)\mu$

Utilities (Surplus)

- ISP Surplus: $IS = c\sum_{i\in\mathcal{P}}\lambda_i = c\lambda_{\mathcal{P}}$;
- Consumer Surplus: $CS = \sum_{i\in\mathcal{N}}\phi_i\lambda_i$
  - ϕ_i : per unit traffic value to the users
- Content Provider:
  - v_i : per unit traffic profit of CP i

$$u_i(\lambda_i) = \begin{cases} v_i\lambda_i & \text{if } i \in \mathcal{O}, \\ (v_i - c)\lambda_i & \text{if } i \in \mathcal{P}. \end{cases}$$

Type of Content



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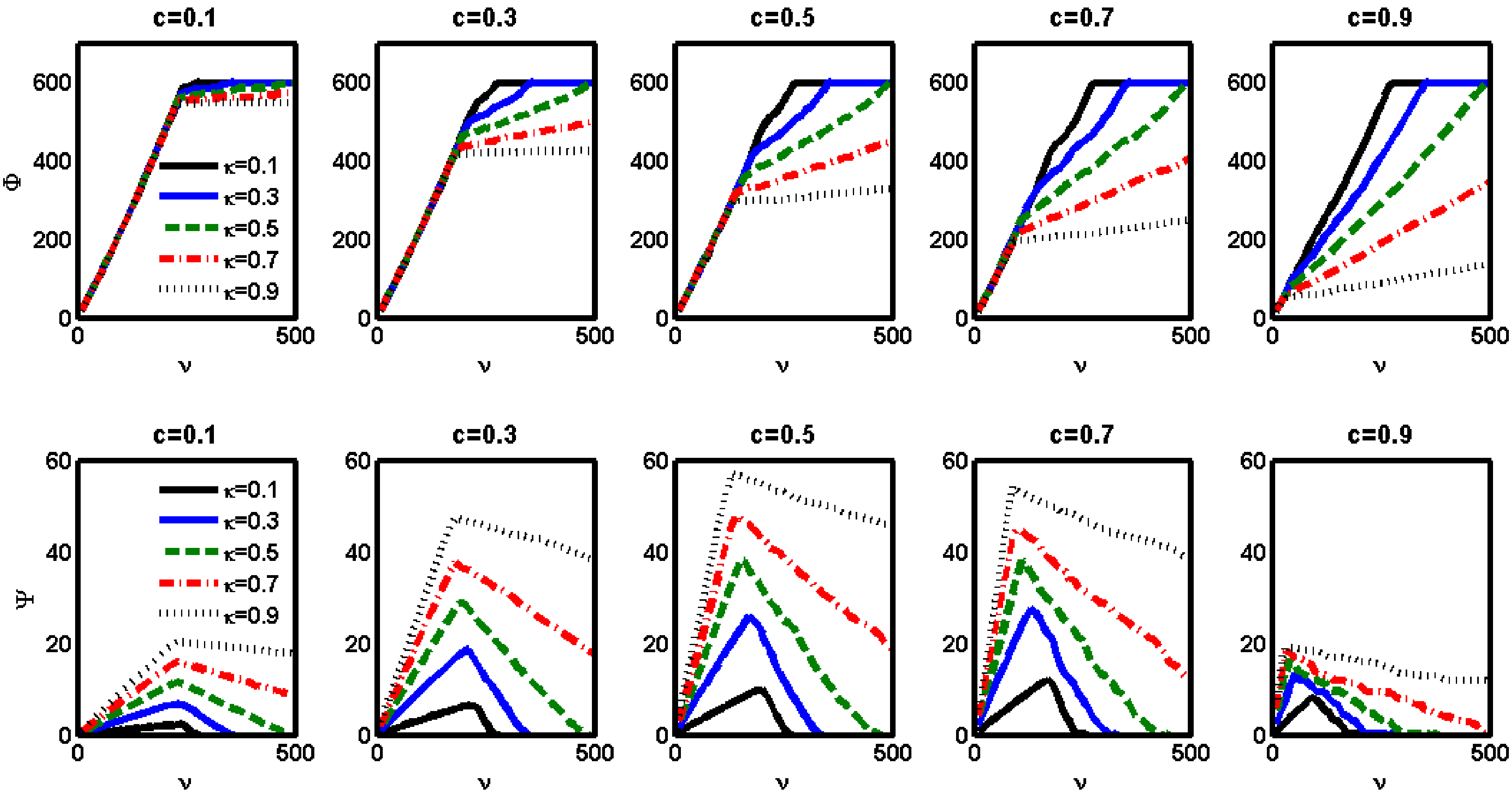
- Theorem: Given a fixed charge c, strategy $s_I = (\kappa, c)$ is dominated by $s_I' = (1, c)$.

- The monopoly ISP has incentive to allocate all capacity for the premium service class.

Utility Comparison: Φ vs Ψ



$\nu = \mu/M$ $\Phi = CS/M$ $\Psi = IS/M$

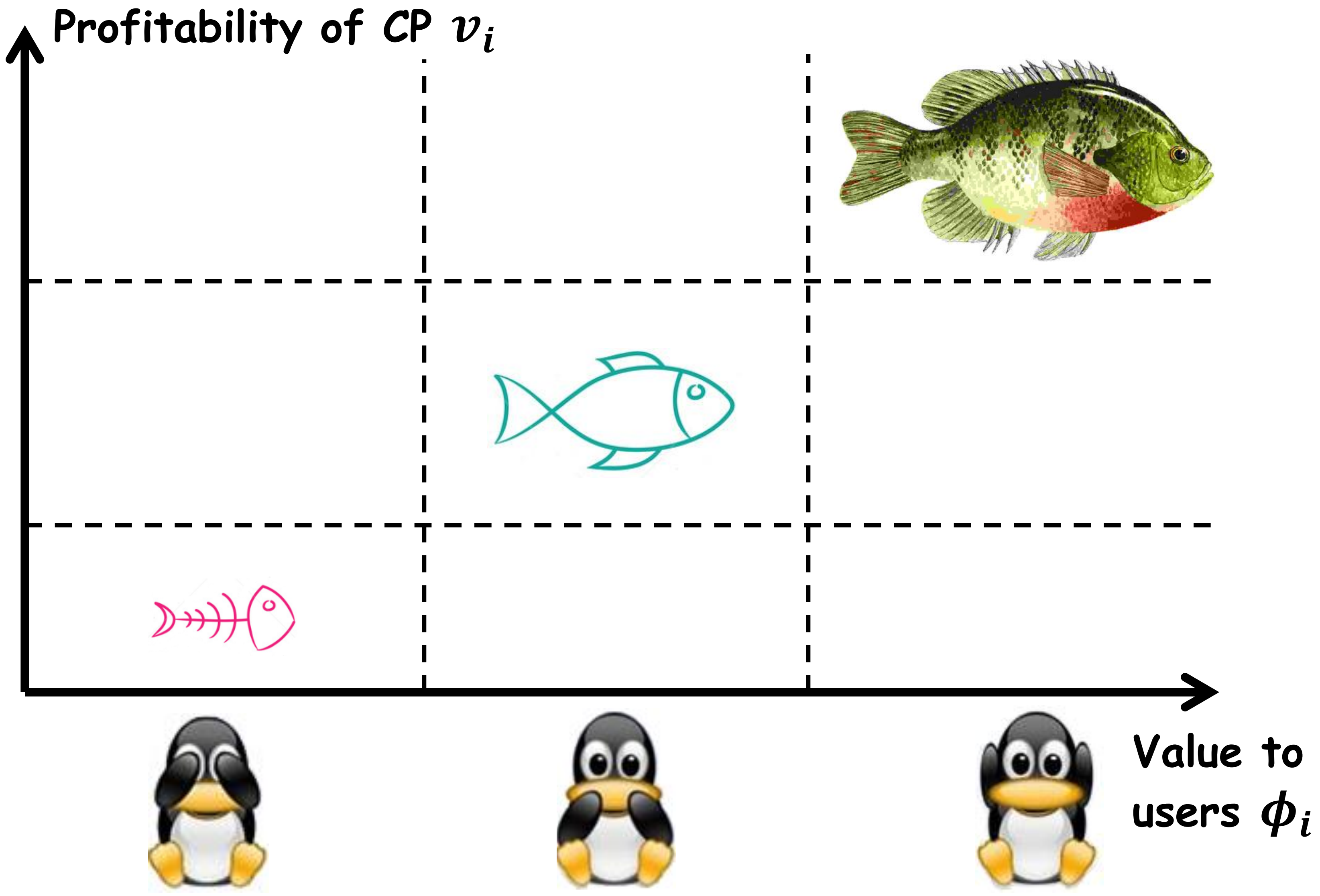
Regulatory Implications

- Ordinary service can be made "damaged goods", which hurts the user utility.

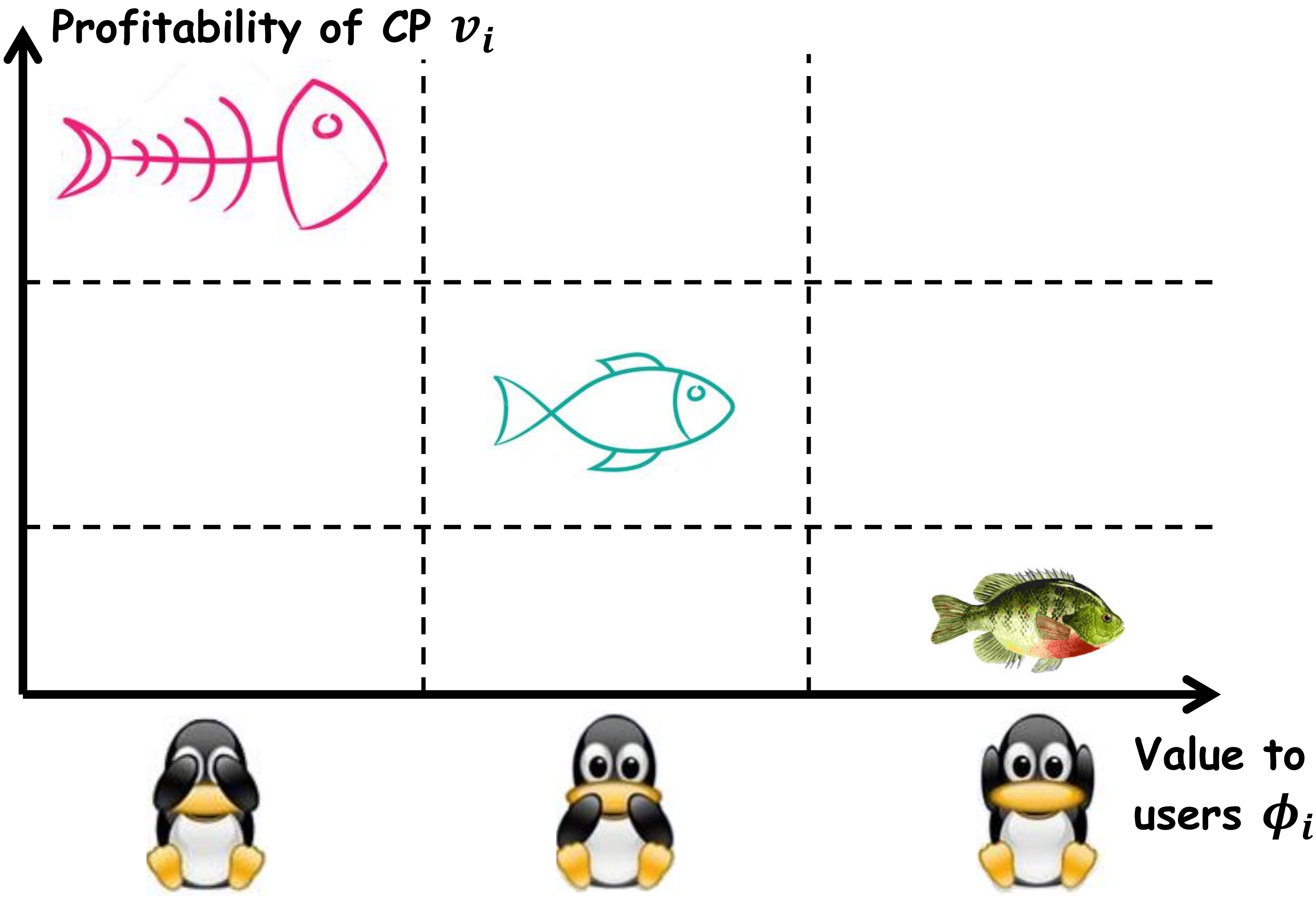
- Implication: ISP should not be allowed to use non-work-conserving policies (κ cannot be too large).

- Should we allow the ISP to charge an arbitrarily high price c?

High price c is good when



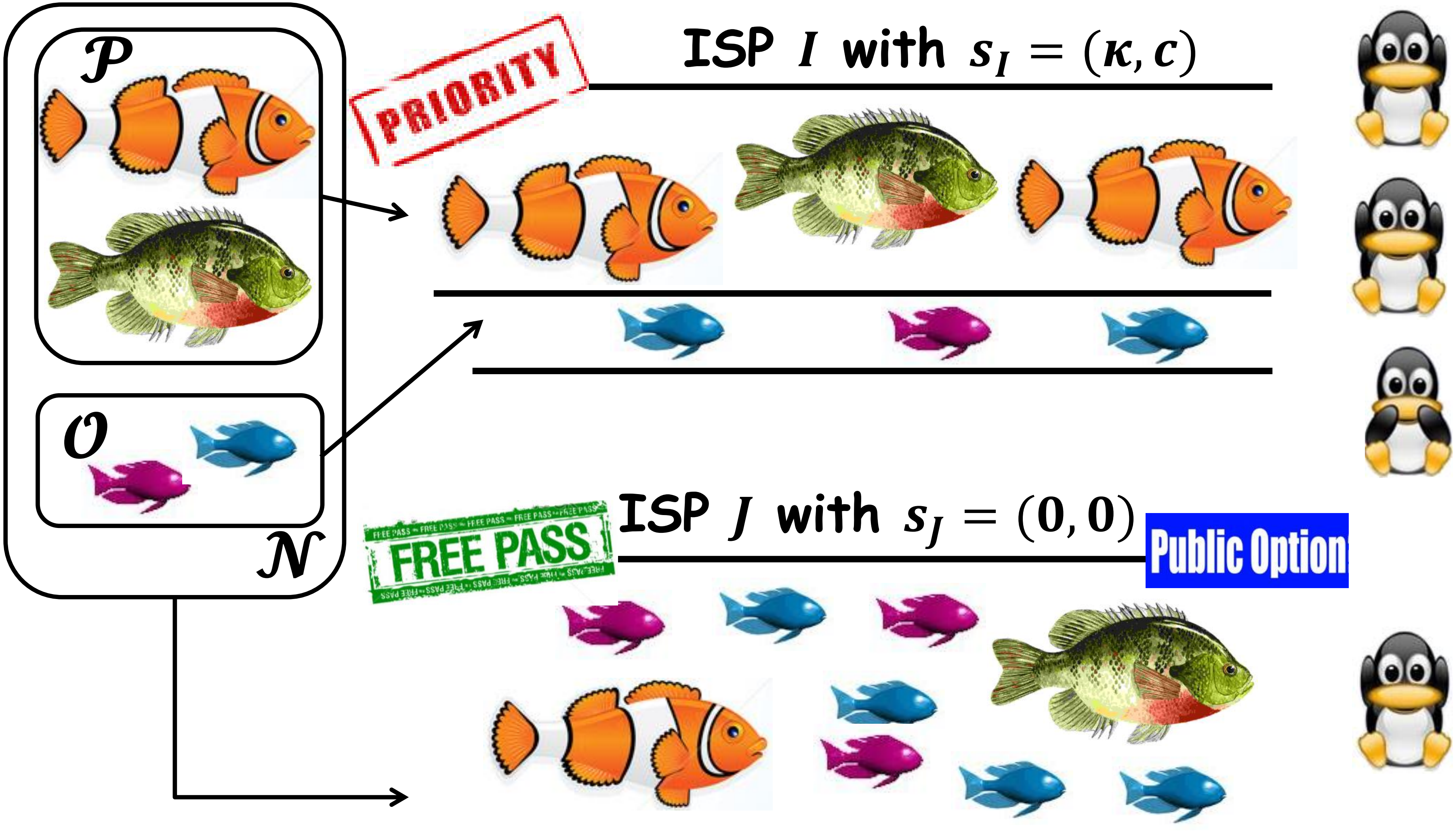
High price c is bad when



Oligopolistic Analysis

- A Two-stage Game Model $(M, \mu, \mathcal{N}, \mathcal{I})$
  - 1st stage: for each ISP $I \in \mathcal{I}$ chooses $s_I = (\kappa_I, c_I)$ simultanously.
  - 2nd stage: at each ISP $I \in \mathcal{I}$, CPs choose service classes with $s_{\mathcal{N}}^I = (\mathcal{O}_I, \mathcal{P}_I)$
- Difference with monopolistic scenarios:
  - Users move among ISPs until the per user utility Φ_I is the same, which determines the market share of the ISPs
  - ISPs try to maximize their market share.

Duopolistic Analysis



Duopolistic Analysis: Results

- Theorem: In the duopolistic game, where an ISP J is a Public Option, i.e. $s_J = (0,0)$, if s_I maximizes the non-neutral ISP I's market share, s_I also maximizes user utility.

- Regulatory implication for monopoly cases:

Public Option > Network Neutrality > Hands Off the Internet

Oligopolistic Analysis: Results

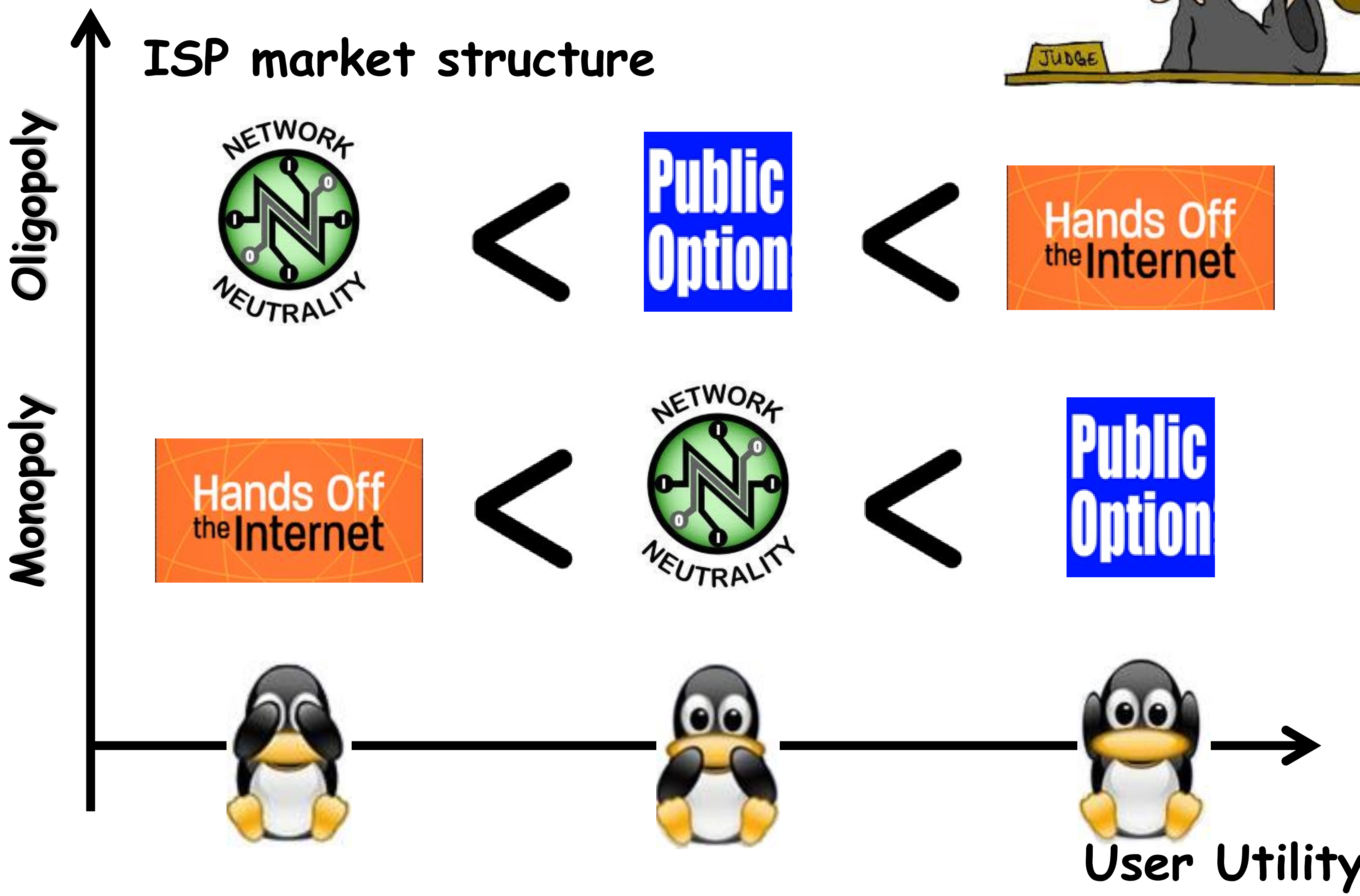
- Theorem: Under any strategy profile s_{-I}, if s_I is a best-response to s_{-I} that maximizes market share, then s_I is an ϵ–best-response for the per user utility Φ.

- The Nash equilibrium of market share is an ϵ-Nash equilibrium of user utility.

- Oligopolistic scenarios:

Hands Off the Internet > Public Option > Network Neutrality

Regulatory Preference



SENATOR, WHAT DO YOU THINK ABOUT THE PUBLIC OPTION?..
INSURANCE INDUSTRY
MIKE LUCKOVICH
8-28-9