

Contents

1	Motivation and Nontechnical Overview	1
Part I Selected Theoretical Concepts		
2	The Theory of Games	9
2.1	On Game Theory	9
2.2	Noncooperative Games.....	11
2.2.1	Overview	11
2.2.2	Strategic Form Games	11
2.2.3	Extensive Form Games	21
2.3	Cooperative Games.....	26
2.3.1	Overview	26
2.3.2	The Cooperative Game	27
2.3.3	Important Classes and Types of Games	29
2.3.4	Properties of a Game.....	36
2.3.5	Dual Games and the Tennessee Valley Authority	45
2.4	Solutions Concepts for Cooperative Games.....	48
2.4.1	Overview	48
2.4.2	Stable Sets: The von Neumann Morgenstern Solution	52
2.4.3	The Core	57
2.4.4	Allocation Rules as Point-valued Solutions.....	85
2.4.5	The Shapley Value	90
2.4.6	The Weighted Shapley Value	102
2.4.7	Bargaining Solutions	111
3	Network Theory in Economics.....	119
3.1	Overview.....	119
3.2	Basic Concepts and Definitions.....	119
3.3	Communication Situations	124
3.4	Allocation Rules in Communication Situations.....	130
3.5	The Myerson Value.....	134

3.6	Network Formation	141
3.6.1	Overview	141
3.6.2	Network Formation in Extensive Form	142
3.6.3	Network Formation in Strategic Form	147
3.6.4	On the Stability of Networks	151
 Part II Applications to Peering in Telecommunications		
4	Telecommunications and the Internet	159
4.1	Overview	159
4.2	A Brief Refresher on Telecommunications Networks	159
4.2.1	Architecture of a Classic PSTN	160
4.2.2	The Internet	163
4.2.3	Overlap and Convergence to <i>Next Generation Networks</i>	166
4.3	Market Liberalization and Regulation	167
4.4	Telephony on IP-Based Networks	170
4.4.1	IP Telephony	170
4.4.2	Classes of VoIP Firms	172
4.4.3	The Re-Routing Problem	172
4.5	Related Research	175
5	A Model of Peering Among VoIP Firms	179
5.1	Overview	179
5.2	The VoIP Peering Game	179
5.2.1	Basic Setup and Assumptions	179
5.2.2	The Characteristic Function of the Game	189
5.2.3	The Peering Game and Its Properties	193
5.3	Allocation of Gains from Peering	203
5.3.1	Allocate What?	203
5.3.2	The Core of the Peering Game	204
5.3.3	Downsizing with the Least-Core	211
5.3.4	The Shapley Vector in the Peering Game	213
5.3.5	The Myerson Value	218
5.3.6	The Weighted Shapley Value	219
5.3.7	Bargaining Solutions	226
5.3.8	For Comparison Only	232
6	Network Formation in Peering	235
6.1	Overview	235
6.2	A Contribution-Based Allocation Procedure	236
6.3	Bilateral Network Formation	241
6.3.1	Overview	241
6.3.2	Network Formation in Strategic Form	242
6.3.3	Stability of Networks	249
6.3.4	Network Formation in Extensive Form	253

6.4	Central Network Formation	253
6.4.1	The Central Peering Instance	253
6.4.2	Network Formation in Strategic Form	256
6.4.3	Network Formation in Extensive Form	260
6.4.4	Stability of Networks	263
6.5	Implications for Regulators	265
7	Concluding Remarks	269
A	A Selected Mathematical Concepts	273
	Notation	287
	References	291