An Auction Mechanism Considering Seat Reservations in Movie Theater Services

Nariaki Nishino, The University of Tokyo, Japan
Koji Fukuya, The University of Tokyo, Japan
Kanji Ueda, National Institute of Advanced Industrial Science and Technology and The University of Tokyo, Japan

ABSTRACT

This paper proposes a new auction mechanism with seat reservations in movie theaters using an interdisciplinary approach. In movie theater services, the movie price is generally fixed, not depending on the quality of contents or the theater seat. It implies that such a service mechanism by fixed pricing might not reflect the value of movie contents. In this study, a new mechanism of theater services is proposed introducing the Vickrey–Clarke–Groves (VCG) mechanism and Gale–Shapley (GS) mechanism, which present effectiveness in the field of mechanism design. First derived is the theoretical predictions of equilibrium and how the mechanism works using experiments with human subjects. In addition, agent-based simulation is conducted using agents that make the decisions observed in the experiments. Consequently, the results present the validity of the proposed mechanism, showing an increase in the social surplus.

Keywords: Agent-Based Simulation, Experimental Economics, Gale-Shapley Mechanism, Service Engineering, Vickrey-Clarke-Groves Mechanism

INTRODUCTION¹

Scientific studies of services have attracted attention over the years. According to one study of the relevant literature (Spohrer & Maglio, 2008), service innovations can impact service productivity and service quality. Especially in Japan, the government has initiated national projects for the promotion of service productivity and service innovation (Takenaka et al., 2009).

In addition, service engineering is proposed as a novel engineering method to evaluate and design services: Arai and Shimomura developed a service CAD system (Arai & Shimomura, 2004, 2005) and proposed method for evaluating services using service Quality Function Deployment (QFD) (Shimomura et al., 2009). Aurich et al. (2004) specifically examined the design of services from a product

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life-cycle perspective. Furthermore, the “Industrial Product–Service Systems (IPS2)” collaborative research project is established and several studies are conducted (Meier, 2010). The concept of “service-dominant logic” is proposed by Vargo and Akaka (2009).

This study addresses services in movie theaters as an actual example of service studies. Movies are a good example of a service and are now known worldwide as a popular leisure activity. In the movie theater service industry, both popular movies and uninteresting movies are usually provided at the same price. Moreover, especially in the case of Japan, that price is high. Therefore, it is doubtful whether the value of movies is reflected appropriately in the movie price. In general, according to market mechanisms, prices should be high if goods or services are in high demand, but prices should be low in the case of unpopular ones.

Another characteristic of movie theater services is that consumers receive services at seats in theaters. In addition to pricing, a problem is how seats in theaters are allocated according to consumer preferences. This study proposes a new movie service mechanism by considering seat allocation. In other words, we apply good findings in the field of mechanism design (Maskin, 2008) to the circumstances related to movie theater services. Then we examine the effectiveness of the proposed service mechanism using the methodology of experimental economics (Smith, 1976) and agent-based simulation.

This paper is organized as follows: the second section explains the approach for service design. The third section presents formulation of a basic framework of movie theaters. In the fourth section, the proposed mechanism is presented; the fifth section derives the Nash equilibrium of the proposed mechanism. Then, the sixth section presents a description of our economic experiment and its result. The seventh section presents agent-based simulation. Finally, the last section concludes the presentation of our analyses with a few remarks.

**APPROACH FOR SERVICE DESIGN**

An interdisciplinary approach is said to be necessary for service design (Takenaka et al., 2009). This study specifically examines experimental economics, mechanism design, and agent-based simulation. Each topic and its relation of service design are explained in the following subsections.

**Experimental Economics**

Economic experimentation has recently been used for social science study. Economic studies that adopt this experimental method are established as experimental economics (Smith, 1976, 1982; Friedman & Sunder, 1994; Kagel & Roth, 1995). Just as engineers and scientists do in other fields, an experimenter can design an economic experiment to examine a particular theory or an economic system. In an economic experiment, the experimenter constructs a laboratory environment under carefully controlled conditions. An important point is that subjects who are recruited for experiments are promised a monetary reward according to their performance in the experiments. According to the monetary reward, economic incentives are given to subjects. The experimenter observes their actions in the experiment to verify whether those actions reflect the theory as it was hypothesized.

Particularly in service studies, the methodology of experimental economics is useful. A salient issue in service design is the economic mechanism of services. Whether the proposed service is profitable or not is an absolutely critical problem. With respect to this problem, experiments based on experimental economics provide several new perspectives.

**Mechanism Design**

According to Maskin (2008), the theory of mechanism design can be regarded as the “engineering” side of economic theory. Mechanism design theory was initiated by Hurwicz (1972) and refined by Maskin (1999) and other...
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