

## Supplement to “Efficient dynamic mechanisms in environments with interdependent valuations: The role of contingent transfers”

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In this supplement, we discuss budget balance and surplus extraction in dynamic mechanisms with interdependent valuations. We also study efficient dynamic mechanisms when agents’ signals evolve independently. Finally, we provide proofs that are omitted in the main paper.

### S1. BUDGET-BALANCED MECHANISMS

We first consider budget-balanced mechanisms when the time horizon is infinite ( $T = \infty$ ).<sup>1</sup> The mechanism  $\Gamma = (\Theta_t, a_t, p_t)_{t=1}^T$  is *ex ante budget balanced* if

$$\mathbb{E} \left[ \sum_{t=1}^T \delta^{t-1} \sum_{i=1}^N p_t^i \right] \geq 0.$$

The mechanism is *budget balanced* if for each  $t$ ,

$$\mathbb{E} \left[ \sum_{i=1}^N p_t^i \right] = 0.$$

The mechanism is *ex post budget balanced* if for each  $t$ ,

$$\sum_{i=1}^N p_t^i \equiv 0.$$

These notions are related to the mechanism designer’s financing abilities. When the designer has access to long-term outside financing, an ex ante balanced budget means that the expected present value of all transfers from agents is nonnegative. If the financing ability is limited, the relevant notion is budget balance, which says that in each period the designer breaks even on average. Without any outside financing, ex post budget balance requires that agents’ transfers sum to zero in each period for any realized signal profile.

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<sup>1</sup>For the finite-horizon case, the same approach adopted in this subsection yields a balanced budget in all but the last period.

As we mentioned in the paper, one problem with the constructed efficient dynamic mechanisms is that they run large deficits subsidizing agents in each period. Budget balance requires these subsidies to be financed by the participants. An important insight from [Athey and Segal \(2013\)](#) is that the problem of contingent deviations needs to be carefully addressed when signals are persistent, since transfers in each period are calculated based on the conditional distribution of signals in order to balance the budget. However, the conditional distributions are manipulable by agents through their previous reported signals. The balanced team mechanism proposed by [Athey and Segal \(2013\)](#) is not applicable in our settings with interdependent valuations and information correlation.

We first show that ex ante budget-balanced mechanisms can be constructed by introducing participation fees to the original efficient dynamic mechanism in the first period. After observing the first period's signal  $\theta_1^i$ , each agent  $i$  pays a proportion of the expected discounted sum of other agents' total subsidies, an amount that is independent of her current signal  $\theta_1^i$ . In expectation, the total amount of participation fees is equal to the total amount of future subsidies. Specifically, let  $\{p_t^i\}$  denote the transfers in the efficient dynamic mechanism constructed in Theorem 3.1 in the paper. Note that for each  $i$ ,  $p_1^i \equiv 0$ . For each  $\theta_1 \in \Theta_1$ , every agent's equilibrium payoff in the efficient mechanism is  $W(\theta_1)$ . So the expected discounted sum of subsidies for agent  $i$  is

$$\mathbb{E}\left[\sum_{t \geq 1} \delta^{t-1} p_t^i\right] = \mathbb{E}\left[W(\theta_1) - \sum_{t \geq 1} \delta^{t-1} u^i(a_t^*(\theta_t), \theta_t)\right],$$

where the expectation is over the entire sequence of signal profiles. For each  $i$  and  $\theta_1^i$ , define

$$\eta^i(\theta_1^i) \triangleq -\mathbb{E}\left[\sum_{t \geq 1} \delta^{t-1} p_t^i \mid \theta_1^i\right] = -\mathbb{E}\left[W(\theta_1) - \sum_{t \geq 1} \delta^{t-1} u^i(a_t^*(\theta_t), \theta_t) \mid \theta_1^i\right].$$

Then for each agent  $i$ , consider the transfers  $\{\tilde{p}_t^i\}$  defined as

$$\tilde{p}_1^i(\theta_1) = \frac{1}{N-1} \sum_{j \neq i} \eta^j(\theta_1^j),$$

and  $\tilde{p}_t^i = p_t^i$  for  $t \geq 2$ . Note that  $\tilde{p}_1^i$  is independent of agent  $i$ 's report, so  $\{\tilde{p}_t^i\}$  is also periodic ex post incentive compatible. Moreover, by the law of iterated expectations, the expected sum of transfers satisfies

$$\begin{aligned} \mathbb{E}\left[\sum_{i=1}^N \sum_{t \geq 1} \delta^{t-1} \tilde{p}_t^i\right] &= \mathbb{E}\left[\sum_{i=1}^N \tilde{p}_1^i + \sum_{i=1}^N \sum_{t \geq 2} \delta^{t-1} \tilde{p}_t^i\right] \\ &= \mathbb{E}\left[\sum_{i=1}^N \left(\eta^i(\theta_1^i) + \sum_{t \geq 1} \delta^{t-1} p_t^i\right)\right] \end{aligned}$$

$$\begin{aligned}
&= \sum_{i=1}^N \mathbb{E} \left[ -\mathbb{E} \left[ \sum_{t \geq 1} \delta^{t-1} p_t^i \middle| \theta_1^i \right] + \sum_{t \geq 1} \delta^{t-1} p_t^i \right] \\
&= 0.
\end{aligned}$$

Suppose next that the designer has limited instruments for intertemporal financing. We now construct a budget-balanced mechanism under which the expected sum of transfers in each period is zero. For each  $i$ ,  $t$ ,  $a_t$ , and  $\theta_t$ , define

$$\xi^i(a_t, \theta_t) \triangleq u^i(a_t, \theta_t) - \frac{1}{N} \sum_{j=1}^N u^j(a_t, \theta_t)$$

to be the deviation of agent  $i$ 's flow utility from the average flow utility. Since  $\xi^i(a_t, \theta_t)$  is bounded, by the argument in the proof of Theorem 3.1, if Assumption 2 holds, there exist transfers  $\hat{p}_{t+1}^i : \Theta_{t+1}^{-i} \times \Theta_t^i \times A_t \times \Theta_t^{-i} \rightarrow \mathbb{R}$  such that for each  $a_t$  and  $\theta_t^{-i}$  and each pair  $(\theta_t^i, r_t^i)$ , we have

$$\begin{aligned}
\xi^i(a_t, \theta_t) &= \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \hat{p}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a_t, \theta_t^{-i}) \mu_{t+1}(\theta_{t+1} | a_t, \theta_t) \\
&\leq \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \hat{p}_{t+1}^i(\theta_{t+1}^{-i}, r_t^i; a_t, \theta_t^{-i}) \mu_{t+1}(\theta_{t+1} | a_t, \theta_t).
\end{aligned}$$

Set  $\hat{p}_1^i \equiv 0$  for each  $i$  and consider the dynamic mechanism  $\{a_t^*, \hat{p}_t\}$ . The expected sum of transfers in period  $t+1$  under the truthful strategies is

$$\sum_{\theta_{t+1} \in \Theta_{t+1}} \sum_{i=1}^N \hat{p}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a_t^*(\theta_t), \theta_t^{-i}) \mu(\theta_{t+1} | a_t^*(\theta_t), \theta_t) = \sum_{i=1}^N \xi^i(a_t^*(\theta_t), \theta_t) = 0.$$

Moreover, if Assumption 3 holds, then similar to the logic in Theorem 3.2, there are transfers  $\tilde{p}_{t+1}^i : \Theta_{t+1}^{-i} \times A_t \times \Theta_t^{-i} \rightarrow \mathbb{R}$  such that for each  $a_t$  and  $\theta_t$ , we have

$$\xi^i(a_t, \theta_t) = \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \tilde{p}_{t+1}^i(\theta_{t+1}^{-i}; a_t, \theta_t^{-i}) \mu_{t+1}(\theta_{t+1} | a_t, \theta_t),$$

and, hence, a balanced budget

$$\sum_{\theta_{t+1} \in \Theta_{t+1}} \sum_{i=1}^N \tilde{p}_{t+1}^i(\theta_{t+1}^{-i}; a_t^*(\theta_t), \theta_t^{-i}) \mu_{t+1}(\theta_{t+1} | a_t^*(\theta_t), \theta_t) = 0.$$

Therefore, we only need to show that either  $\{\hat{p}_t\}$  or  $\{\tilde{p}_t\}$  achieves incentive compatibility. The result is summarized in the next proposition.

**PROPOSITION S1.1.** *Suppose  $T = \infty$ . Under either Assumption 2 or 3, there exists an efficient dynamic mechanism that is periodic ex post incentive compatible and balances the budget in the truthful equilibrium.*

Note that the above transfers,  $\{\hat{p}_t\}$  and  $\{\tilde{p}_t\}$ , only balance the budget on the equilibrium path. More assumptions on the joint distributions of signals are needed for ex post budget balance along the lines of the analysis in [Kosenok and Severinov \(2008\)](#) and [Hörner et al. \(2015\)](#). Since this question is beyond the scope of the current paper, we leave it for future research.

## S2. EFFICIENT MECHANISMS WITHOUT CORRELATION

If the correlation conditions are violated, the construction in the proof of Theorem 3.1 and Theorem 3.2 may not work for some utility functions. In this section, we drop the assumption that signal spaces are finite but restrict our attention to one-dimensional environments and the evolution of private information is independent across agents. We construct a transfer schedule that extends the generalized VCG mechanism to dynamic settings.

We say that a transfer  $\{p_t\}_{t=1}^T$  or a mechanism  $\{a_t^*, p_t\}_{t=1}^T$  is *history-independent* if for each  $t$  and  $\theta_t$ , and for any two public histories  $h_t$  and  $h'_t$ ,

$$p_t(h_t, \theta_t) = p_t(h'_t, \theta_t).$$

That is, a history-independent transfer  $p_t$  depends only on the reported profile  $r_t \in \Theta_t$  in period  $t$ . Under a history-independent mechanism, agent  $i$ 's period- $t$  continuation payoff depends only on her private signal  $\theta_t^i$ , i.e.,

$$V_t^i(\theta_t^i) = \max_{r_t^i \in \Theta_t^i} \mathbb{E}[u^i(a_t^*(r_t^i, \theta_t^{-i}), \theta_t) - p_t^i(r_t^i, \theta_t^{-i}) + \delta V_{t+1}^i(\theta_{t+1}^i)].$$

In this case, we also define  $V_t^i(a_t, \theta_t)$  as

$$V_t^i(a_t, \theta_t) = u^i(a_t, \theta_t) + \delta \mathbb{E}[V_{t+1}^i(\theta_{t+1}^i) | a_t, \theta_t].$$

**ASSUMPTION 5** (One-dimensional private signals). *For each  $i$  and each  $t$ ,  $\Theta_t^i = [0, 1]$ .*

Under [Assumption 5](#), we can generalize the monotonicity condition in the static model studied by [Bergemann and Välimäki \(2002\)](#). To save notation, assume that for each  $t$ ,  $A_t = A \equiv \{a^1, \dots, a^K\}$ . For any  $i, t$ , and  $\theta_t^i$ , define the set  $\Theta_t^{i,k} \subset \Theta_t^i$  as

$$\Theta_t^{i,k} = \left\{ \theta_t^i \in \Theta_t^i \left| \begin{array}{l} \sum_i u^i(a^k, \theta_t) + \delta \mathbb{E}[W_{t+1}(\theta_{t+1}) | a^k, \theta_t] \\ \geq \sum_i u^i(a^l, \theta_t) + \delta \mathbb{E}[W_{t+1}(\theta_{t+1}) | a^l, \theta_t], \quad \forall a^l \neq a^k \end{array} \right. \right\}.$$

We say that the collections of sets  $\{\Theta_t^{i,k}\}_{k=1}^K$  satisfies *monotonicity* if for each  $k$ ,  $\theta_t^i, \tilde{\theta}_t^i \in \Theta_t^{i,k}$  implies that for each  $\lambda \in [0, 1]$ ,  $\lambda \theta_t^i + (1 - \lambda) \tilde{\theta}_t^i \in \Theta_t^{i,k}$ . Under monotonicity, there exists an efficient allocation  $a_t^*$  in period  $t$  such that after relabeling the social alternatives,

$\Theta_t^i$  can be partitioned into successive intervals  $\{S_t^{i,1}, \dots, S_t^{i,K}\}$  and each  $a^k$  is chosen if and only if  $\theta_t^i \in S_t^{i,k}$ . Then for each  $i, t$ , and  $\theta_t^{-i}$ , there is a linear order  $\prec_t^i$  (which also depends on  $\theta_t^{-i}$ ) on  $A$ :

$$a^1 \prec_t^i \dots \prec_t^i a^K.$$

**ASSUMPTION 6** (Independent transitions). For  $t = 1$ ,  $\mu_1 = \prod_{i=1}^N \mu_1^i$ , where, for each  $i$ ,  $\mu_1^i \in \Delta(\Theta_1^i)$ . For each  $t > 1$ ,  $\mu_t(\theta_t | a_{t-1}, \theta_{t-1}) = \prod_{i=1}^N \mu_t^i(\theta_t^i | a_{t-1}, \theta_{t-1}^{-i})$ , where, for each  $i$ ,  $\mu_t^i: A \times \Theta_{t-1}^i \rightarrow \Delta(\Theta_t^i)$  is a transition probability.

Suppose  $a_t^*(\theta_t) = a^k$ . Then consider the *history-independent* transfer

$$\begin{aligned} p_t^{i*}(\theta_t) &= \sum_{\kappa=1}^k \sum_{j \neq i} [u^j(a^{\kappa-1}, x_t^i(\kappa, \theta_t^{-i}), \theta_t^{-i}) - u^j(a^\kappa, x_t^i(\kappa, \theta_t^{-i}), \theta_t^{-i})] \\ &\quad + \sum_{\kappa=1}^k \delta \mathbb{E}[W_{t+1}(\theta_{t+1}) - V_{t+1}^i(\theta_{t+1}) | a^{\kappa-1}, x_t^i(\kappa, \theta_t^{-i}), \theta_t^{-i}] \\ &\quad - \sum_{\kappa=1}^k \delta \mathbb{E}[W_{t+1}(\theta_{t+1}) - V_{t+1}^i(\theta_{t+1}) | a^\kappa, x_t^i(\kappa, \theta_t^{-i}), \theta_t^{-i}], \end{aligned} \quad (\text{S1})$$

where  $x_t^i(\kappa, \theta_t^{-i}) \triangleq \inf\{\theta_t^i : a_t^*(\theta_t^i, \theta_t^{-i}) = a^\kappa\}$ . Note that  $p_t^{i*}(\theta_t)$  does not depend directly on  $\theta_t^i$  under **Assumption 6**.

Finally, recall that  $W_t(\theta_t)$  is the continuation social surplus given period- $t$  signal profile  $\theta_t$ . For each  $a_t$  and  $\theta_t$ , define  $W_t(a_t, \theta_t)$  as

$$W_t(a_t, \theta_t) = \sum_{i=1}^N u^i(a_t, \theta_t) + \delta \mathbb{E}[W_{t+1}(\theta_{t+1}) | a_t, \theta_t].$$

The next theorem shows that the transfer constructed in (S1) is periodic ex post incentive compatible under some restrictions on the primitives. Therefore, it extends of the generalized VCG mechanism to dynamic environments with interdependent valuations.

**PROPOSITION S2.1.** *Suppose that Assumptions 5 and 6 hold. There exists a periodic ex post incentive compatible mechanism  $\{a_t^*, p_t\}$  with history-independent transfers if for each  $t, i$ , and  $\theta_t^{-i}$ , there exists an order on the allocation space  $A$  such that*

- (i)  $W_t(a_t, \theta_t^i, \theta_t^{-i})$  is single-crossing in  $(a_t, \theta_t^i)$ ,
- (ii)  $V_t^i(a_t, \theta_t^i, \theta_t^{-i})$  has increasing difference in  $(a_t, \theta_t^i)$ .

**REMARK S2.2.** The transfer schedule (S1) can also be viewed as a generalization of the dynamic pivot mechanism constructed by [Bergemann and Välimäki \(2010\)](#). To see this, suppose that each utility function  $u^i$  does not depend on  $\theta_t^{-i}$  and that private informa-

tion is statistically independent across agents. Then (S1) can be written as

$$p_t^{i*}(\theta_t) = \sum_{j \neq i} [u^j(a_t^*(\underline{\theta}^i, \theta^{-i}), \theta_t^{-i}) - u^j(a_t^*(\theta_t), \theta_t^{-i})] \\ + \delta \mathbb{E}[W^{-i}(\theta_{t+1}) | a_t^*(\underline{\theta}^i, \theta^{-i}), \theta_t] - \delta \mathbb{E}[W^{-i}(\theta_{t+1}) | a_t^*(\theta_t), \theta_t],$$

where

$$W^{-i}(\theta_t) = W(\theta_t) - V^i(\theta_t) = \max_{\{a_s\}_{s \geq t}} \mathbb{E} \left[ \sum_{s \geq t} \delta^{s-t} \left( u^i(a_s, \underline{\theta}^i) + \sum_{j \neq i} u^j(a_s, \theta_s^j) \right) \right].$$

Therefore each agent  $i$ 's transfer  $p_t^{i*}$  in every period  $t$  is the flow externality cost that she imposes on other agents.

### S3. SURPLUS EXTRACTION

In this section, we consider the problem of full surplus extraction in the infinite-horizon ( $T = \infty$ ) case. We assume that each agent's utility function is nonnegative and normalize each agent's outside option from any period onward to zero. To simplify notations, we also assume that the transition probabilities are *stationary*, i.e., for each  $t$ ,  $\Theta_t = \Theta_{t+1}$ ,  $A_{t+1} = A_t$ , and  $\mu_{t+1}(\theta_{t+1} | a_t, \theta_t) = \mu(\theta_{t+1} | a_t, \theta_t)$ . We will show that the designer can always extract all the expected surplus from the agents by exploiting the intertemporal correlation of private information. We also emphasize that intertemporal correlation plays the same key role in surplus extraction as it does in efficient mechanisms. In contrast, the attempt to generalize Crémer and McLean (1988) and McAfee and Reny (1992) based on correlation of intraperiod signals fails due to the possibility of belief manipulations by agents.

Formally, we say that a dynamic mechanism  $\{a_t, p_t\}$  achieves *full surplus extraction* if

$$\mathbb{E} \left[ W(\theta_1) - \sum_{i=1}^N \sum_{t=1}^{\infty} \delta^{t-1} p_t^i \right] = 0.$$

That is, the expected discounted total transfer collected by the designer is equal to the expected maximal social surplus. The following result shows that a simple modification of the efficient dynamic mechanism in Theorem 3.1 ensures full surplus extraction and agents' participation constraints in the first period.

**PROPOSITION S3.1.** *Suppose  $T = \infty$ . Under Assumptions 1 and 2 (or Assumptions 1 and 3), there exists a periodic ex post incentive compatible dynamic mechanism that achieves full surplus extraction.*

In effect, the dynamic surplus extraction mechanism in Proposition S3.1 asks each agent to pay a fixed and bounded participation fee and choose from a collection of lotteries in each period, followed by announcing her current signal as in the efficient dynamic mechanism in Theorem 3.1. The outcome of each lottery is revealed in the next period, depending on other agents' reports in *both* periods. All lotteries pay bonuses to the agent, thereby ensuring that agents participate in the mechanism in each period.

The upfront participation fees, which can be thought of as prices of entering any such lotteries, serve to extract the surplus from agents.

REMARK S3.2. Another notion of surplus extraction would require that the designer obtains the entire continuation social surplus after *each* history. While in our mechanism each agent collects zero expected surplus from the beginning of her interactions, her continuation payoff after any nontrivial history is, in fact, positive as she obtains bonuses from the lottery purchased in the previous round. Thus, the mechanism does not satisfy this stronger version of surplus extraction. We conjecture that given agents' interim participation constraints in each period, it is impossible to achieve surplus extraction after each history.

#### S4. PROOFS OF RESULTS IN APPENDIX A

PROOF OF PROPOSITION S1.1. Since budget balance under either  $\{\hat{p}_t\}$  or  $\{\tilde{p}_t\}$  is established in the main text, we only need to show that both mechanisms,  $\{a_t^*, \hat{p}_t\}$  and  $\{a_t^*, \tilde{p}_t\}$ , are periodic ex post incentive compatible. By the one-shot deviation principle, it suffices to prove that truth-telling is incentive compatible for agent  $i$  in period  $t$  after any history if all agents report truthfully from period  $t + 1$  onward. Here we prove the result for  $\{a_t^*, \tilde{p}_t\}$ . The proof for  $\{a_t^*, \hat{p}_t\}$  is similar and, hence, is omitted.

Fix any  $h_t = \{h_{t-1}, \theta_{t-1}, a_{t-1}\}$ . We need to show that for each  $i$  and  $\theta$ ,  $r_t^i = \theta_t^i$  is a solution to the maximization problem

$$\begin{aligned} & \max_{r_t^i} \left\{ u^i(a_t^*(r_t^i, \theta_t^{-i}), \theta_t) - \tilde{p}_t^i(\theta_t^{-i}; a_{t-1}, \theta_{t-1}^{-i}) \right. \\ & \left. + \delta \sum_{\theta_{t+1}} \left[ \frac{1}{N} W(\theta_{t+1}) - \tilde{p}_{t+1}^i(\theta_{t+1}^{-i}; a_t^*(r_t^i, \theta_t^{-i}), \theta_t^{-i}) \right] \mu_{t+1}(\theta_{t+1} | a_t^*(r_t^i, \theta_t^{-i}), \theta_t) \right\}. \end{aligned} \quad (\text{S2})$$

By construction, we have

$$\begin{aligned} & \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \tilde{p}_{t+1}^i(\theta_{t+1}^{-i}; a_t^*(r_t^i, \theta_t^{-i}), \theta_t^{-i}) \mu_{t+1}(\theta_{t+1} | a_t^*(r_t^i, \theta_t^{-i}), \theta_t) \\ & = u^i(a_t^*(r_t^i, \theta_t^{-i}), \theta_t) - \frac{1}{N} \sum_{i=1}^N u^i(a_t^*(r_t^i, \theta_t^{-i}), \theta_t). \end{aligned}$$

So the problem (S2) is equivalent to

$$\begin{aligned} & \max_{r_t^i} \left\{ u^i(a_t^*(r_t^i, \theta_t^{-i}), \theta_t) - \tilde{p}_t^i(\theta_t^{-i}; a_{t-1}, \theta_{t-1}^{-i}) - u^i(a_t^*(r_t^i, \theta_t^{-i}), \theta_t) \right. \\ & \left. + \frac{1}{N} \sum_{i=1}^N u^i(a_t^*(r_t^i, \theta_t^{-i}), \theta_t) \right. \\ & \left. + \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \frac{1}{N} W(\theta_{t+1}) \mu_{t+1}(\theta_{t+1} | a_t^*(r_t^i, \theta_t^{-i}), \theta_t) \right\}. \end{aligned} \quad (\text{S3})$$

Since the second term in the objective function of (S3),  $\tilde{p}_t^i(\theta_t^{-i}; a_{t-1}, \theta_{t-1}^{-i})$ , is independent of  $r_t^i$ , solutions to problem (S3) are also solutions to the problem

$$\max_{r_t^i} \left\{ \frac{1}{N} \sum_{i=1}^N u^i(a_t^*(r_t^i, \theta_t^{-i}), \theta_t) + \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \frac{1}{N} W(\theta_{t+1}) \mu_{t+1}(\theta_{t+1} | a_t^*(r_t^i, \theta_t^{-i}), \theta_t) \right\}.$$

The result then follows from the definition of  $a_t^*$ .  $\square$

**PROOF OF PROPOSITION S2.1.** The proof is by backward induction on  $t$ . For each  $t$ , the argument follows the same lines as the proof of Proposition 3 in Bergemann and Välimäki (2002, pp. 1029–1030) with the transfers defined in (S1).  $\square$

**PROOF OF PROPOSITION S3.1.** The proof is similar to that of Theorem 3.1. For each  $t$  and  $i$ , agent  $i$ 's current signal  $\theta_t^i$  is correlated with other agents' signals  $\theta_{t+1}^{-i}$  in the next period as in Assumption 2, and there exists a function  $\tilde{q}_{t+1}^i : \Theta_{t+1}^{-i} \times \Theta_t^i \times A_t \times \Theta_t^{-i} \rightarrow \mathbb{R}$  such that for each  $a_t$  and  $\theta_t^{-i}$  and each pair  $(\theta_t^i, r_t^i)$ ,

$$\begin{aligned} u^i(a_t, \theta_t) &= \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \tilde{q}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a_t, \theta_t^{-i}) \mu(\theta_{t+1} | a_t, \theta_t) \\ &\leq \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \tilde{q}_{t+1}^i(\theta_{t+1}^{-i}, r_t^i; a_t, \theta_t^{-i}) \mu(\theta_{t+1} | a_t, \theta_t). \end{aligned}$$

By the stationarity assumption, we have  $\tilde{q}_{t+1}^i = \tilde{q}_t^i$  for each  $t \geq 2$ . For each  $a_t, \theta_t^{-i}$ , let  $K^i(a_t, \theta_t^{-i}) \in \mathbb{R}$  be an upper bound of  $|\tilde{q}_{t+1}^i|$ , i.e.,

$$K^i(a_t, \theta_t^{-i}) > \sup_{\theta_{t+1}^{-i}, \theta_t^i} |\tilde{q}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a_t, \theta_t^{-i})|.$$

Let  $K^i = \max_{a_t, \theta_t^{-i}} K^i(a_t, \theta_t^{-i})$ . We also set  $\tilde{q}_1^i \equiv 0$  for all  $i$ . Note that the dynamic mechanism  $\{a_t^*, \tilde{q}_t\}$  is well defined.

We first show that  $\{a_t^*, \tilde{q}_t\}$  is periodic ex post incentive compatible. Again assume all agents other than agent  $i$  report truthfully. If agent  $i$  reports truthfully in period  $t$ , i.e.,  $r_t^i = \theta_t^i$ , her continuation payoff is

$$\begin{aligned} &u^i(a_t^*(\theta_t), \theta_t) - \tilde{q}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^i) \\ &\quad - \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \tilde{q}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a_t^*(\theta_t), \theta_t^{-i}) \mu(\theta_{t+1} | a_t^*(\theta_t), \theta_t) \\ &= -\tilde{q}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^i). \end{aligned}$$

Suppose agent  $i$  deviates to a message  $r_t^i$  such that  $a_t^*(r_t^i, \theta_t^{-i}) = a_t^*(\theta_t)$ . Then her continuation payoff satisfies

$$\begin{aligned} &u^i(a_t^*(\theta_t), \theta_t) - \tilde{q}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^i) \\ &\quad - \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \tilde{q}_{t+1}^i(\theta_{t+1}^{-i}, r_t^i; a_t^*(\theta_t), \theta_t^{-i}) \mu(\theta_{t+1} | a_t^*(\theta_t), \theta_t) \end{aligned}$$



$$\begin{aligned}
&\leq u^i(a_t^*(\theta_t), \theta_t) - \tilde{q}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^i) \\
&\quad - \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \tilde{q}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a_t^*(\theta_t), \theta_t^{-i}) \mu(\theta_{t+1} | a_t^*(\theta_t), \theta_t) \\
&= -\tilde{q}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^i).
\end{aligned}$$

Suppose agent  $i$  deviates to a message  $r_t^i$  such that  $a_t^*(r_t^i, \theta_t^{-i}) = a' \neq a_t^*(\theta_t)$ . Then her continuation payoff satisfies

$$\begin{aligned}
&u^i(a', \theta_t) - \tilde{q}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^i) \\
&\quad - \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \tilde{q}_{t+1}^i(\theta_{t+1}^{-i}, r_t^i; a', \theta_t^{-i}) \mu(\theta_{t+1} | a', \theta_t) \\
&\leq u^i(a', \theta_t) - \tilde{q}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^i) \\
&\quad - \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \tilde{q}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a', \theta_t^{-i}) \mu(\theta_{t+1} | a', \theta_t) \\
&= -\tilde{q}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^i).
\end{aligned}$$

Thus, after any history  $h_t$ , truth-telling is optimal for agent  $i$  provided that other agents also report their signals truthfully. The transfers  $\tilde{q}_{t+1}^i$  can be viewed as lottery *payments* in period  $t+1$  that agent  $i$  commits to fulfill in period  $t$ . Since each agent in every period on average pays her flow utility in the previous period, it is straightforward to verify that the designer extracts all surplus with the mechanism  $\{a_t^*, \tilde{q}_t\}$ .

Although agent  $i$ 's participation constraint in period 1 is satisfied under the mechanism  $\{a_t^*, \tilde{q}_t\}$  as we have  $\tilde{q}_1^i \equiv 0$ , her participation constraints in any subsequent period could be violated. To see this, note that the above reasoning also shows that agent  $i$ 's equilibrium continuation payoff after history  $h_t$  is  $-\tilde{q}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^i)$ , which may be less attractive than her outside option from period  $t$  onward.

This problem can be resolved by replacing the transfers  $\tilde{q}_{t+1}^i$  in period  $t+1$  with an upfront charge in period  $t$  and lottery *bonuses* in period  $t+1$ . Recall that for each  $a_t$  and  $\theta_t^{-i}$ ,  $K^i(a_t, \theta_t^{-i})$  is an upper bound of  $q_{t+1}^i(\cdot, \cdot; a_t, \theta_t^{-i})$ . For each  $t$  and  $i$ , define a new transfer function  $\hat{q}_{t+1}^i : \Theta_{t+1}^{-i} \times \Theta_t^i \times A_t \times \Theta_t^{-i} \rightarrow \mathbb{R}$  by

$$\hat{q}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a_t, \theta_t^{-i}) \equiv \tilde{q}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a_t, \theta_t^{-i}) - K^i(a_t, \theta_t^{-i}).$$

Also define  $\hat{q}_1^i \equiv 0$ . Note that by construction,  $\hat{q}_{t+1}^i \leq 0$  for each  $t$  and  $i$ . Thus,  $\hat{q}_{t+1}^i$  can be viewed as lottery bonuses for agent  $i$ . Set  $c_t^i(a_t, \theta_t^{-i}) = \delta K^i(a_t, \theta_t^{-i})$  to be the entrance fee or “price” of the lottery  $\{\hat{q}_{t+1}^i\}$  that agent  $i$  pays in period  $t$ .

Finally, for each agent  $i$ , define a sequence of transfers  $\hat{p}_t^i$  as follows: (a) in the first period, agent  $i$  pays an entrance fee  $\hat{p}_1^i(\theta_1) = c_1^i(a_1^*(\theta_1^i, \theta_1^{-i}), \theta_1^{-i})$ ; (b) in each subsequent periods, agent  $i$  collects the lottery bonus and pays another entrance fee, i.e.,  $\forall t \geq 1$ ,

$$\hat{p}_{t+1}^i(h_t, \theta_{t+1}) = \hat{q}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a_t, \theta_t^{-i}) + c_{t+1}^i(a_{t+1}^*(\theta_{t+1}^i, \theta_{t+1}^{-i}), \theta_{t+1}^{-i}).$$

Under the mechanism  $\{a_t^*, \hat{p}_t\}$ , after any history  $h_t$ , agent  $i$ 's continuation payoff from truth-telling is well defined and is given by

$$\begin{aligned}
& u^i(a_t^*(\theta_t), \theta_t) - \hat{p}_t^i(h_t, \theta_t) \\
& - \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \hat{q}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a_t^*(\theta_t), \theta_t^{-i}) \mu(\theta_{t+1} | a_t^*(\theta_t), \theta_t) \\
& - \lim_{T \rightarrow \infty} \delta^{T-t+1} \mathbb{E}[K^i(a_T^*(\theta_T), \theta_T^{-i}) | a_t^*(\theta_t), \theta_t] \\
& = u^i(a_t^*(\theta_t), \theta_t) - \hat{p}_t^i(h_t, \theta_t) \\
& - \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} \hat{q}_{t+1}^i(\theta_{t+1}^{-i}, \theta_t^i; a_t^*(\theta_t), \theta_t^{-i}) \mu(\theta_{t+1} | a_t^*(\theta_t), \theta_t) \\
& = -\hat{q}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^i) \geq 0.
\end{aligned}$$

Alternatively, agent  $i$ 's continuation payoff from lying in period  $t$  is no greater than  $-\hat{q}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^i)$ . Since the expected discounted sum of transfers satisfies

$$\mathbb{E}\left[\sum_t \delta^{t-1} \hat{p}_t^i\right] = \mathbb{E}\left[\sum_t \delta^{t-1} \hat{q}_t^i\right],$$

it follows that the mechanism  $\{a_t^*, \hat{p}_t\}$  is periodic ex post incentive compatible and achieves full surplus extraction.  $\square$

## S5. PROOFS OMITTED IN THE PAPER

In this section, we first prove Lemma A.2 in the paper and then complete the proofs of Theorem 3.1 and Theorem 3.2 in the paper.

**PROOF OF LEMMA A.2.** The proof follows directly from the following lemma.

Let  $S$  and  $T$  be finite sets. For each  $t \in T$ , let  $\mu(\cdot | t) \in \Delta(S)$  be a probability distribution over  $S$ .

**LEMMA S5.1.** *Suppose for each  $t \in T$ , we have*

$$\text{dist}_2(\mu(\cdot | t) - \text{Conv}\{\mu(\cdot | t')\}_{t' \neq t}) \geq \epsilon$$

*for some  $\epsilon > 0$ . Then for any function  $u : T \rightarrow \mathbb{R}$ , there exists a function  $p : S \times T \rightarrow \mathbb{R}$  such that for any  $t$  and  $t'$ ,*

$$u(t) = \sum_{s \in S} p(s, t) \mu(s | t) \leq \sum_{s \in S} p(s, t') \mu(s | t)$$

*and*

$$\max_{s, t} |p(s, t)| \leq \left(1 + \frac{4}{\epsilon}\right) \cdot \max_t |u(t)|.$$

PROOF. For each  $t$ , let  $\nu(\cdot|t) \equiv (\nu(s|t))_{s \in S} = \min_{\tilde{\nu}(\cdot|t) \in \text{Conv}\{\mu(\cdot|t')\}_{t' \neq t}} \|\mu(\cdot|t) - \tilde{\nu}(\cdot|t)\|_2$ .<sup>2</sup> Define

$$d(s, t) \equiv \frac{\mu(s|t) - \nu(s|t)}{\|\mu(\cdot|t) - \nu(\cdot|t)\|_2}.$$

Note that  $\|d(\cdot, t)\|_2 = 1$ . By construction, for any  $t$  and  $t'$ , we have

$$\sum_{s' \in S} d(s', t)(\mu(s'|t') - \nu(s'|t)) \leq 0$$

and

$$\sum_{s' \in S} d(s', t)(\mu(s'|t) - \nu(s'|t)) = \|\mu(\cdot|t) - \nu(\cdot|t)\|_2 \geq \epsilon.$$

Define

$$e(s, t) \equiv \sum_{s' \in S} d(s', t)\mu(s'|t) - d(s, t).$$

Then for any  $t$  and  $t'$ , we have

$$\sum_{s' \in S} e(s', t)\mu(s'|t) = 0 < \epsilon \leq \sum_{s' \in S} e(s', t)\mu(s'|t').$$

Define

$$p(s, t) \equiv u(t) + c \cdot e(s, t),$$

where  $c = 2 \max_t |u(t)|/\epsilon$ . Then for any  $t$  and  $t'$ , we have

$$u(t) = \sum_{s \in S} p(s, t)\mu(s|t)$$

and

$$\sum_{s \in S} p(s, t')\mu(s|t) = u(t') + c \sum_{s \in S} e(s, t')\mu(s|t) \geq u'(t) + c\epsilon \geq u(t).$$

Finally, since  $\max_s |e(s, t)| \leq \|e(\cdot, t)\|_2 \leq 2$ , we have

$$\max_s p(s, t) \leq |u(t)| + 2c,$$

which implies that

$$\max_{s, t} |p(s, t)| \leq \left(1 + \frac{4}{\epsilon}\right) \cdot \max_t |u(t)|. \quad \square$$

PROOF OF THEOREM 3.1 (FINITE HORIZON). Let  $W_t(\theta_t)$  denote the expected period- $t$  continuation social surplus given signal profile  $\theta_t$ , i.e.,

$$W_t(\theta_t) = \mathbb{E} \left[ \sum_{s=t}^T \delta^{s-t} \sum_{i=1}^N u^i(a_i^*(\theta_t), \theta_t) \middle| \theta_t \right].$$

<sup>2</sup>The term  $\|\cdot\|_2$  is the Euclidean norm.

First consider the problem in period  $T$ . By Assumption 4, there exists an ex post incentive compatible transfer  $p_T : \Theta_T \rightarrow \mathbb{R}^N$  that implements the efficient allocation  $a_T^*$ . Given  $(a_T^*, p_T)$ , the payoff  $V_T^i$  for each agent  $i$  in the truth-telling equilibrium is given by

$$V_T^i(\theta_T) = u^i(a_T^*(\theta_T), \theta_T) - p_T^i(\theta_T)$$

for each  $\theta_T$ .

Next consider agent  $i$ 's incentive problem in period  $T - 1$  with an arbitrary public history  $h_{T-1} = (r_1, a_1, r_2, a_2, \dots, r_{T-1}, a_{T-1})$ . Suppose that agents other than  $i$  always report truthfully. For each pair  $(a_{T-1}, \theta_{T-1})$ , define

$$\pi_{T-1}^i(a_{T-1}, \theta_{T-1}) = \sum_{j \neq i} u^j(a_{T-1}, \theta_{T-1}) + \delta \mathbb{E}[W(\theta_T) - V_T^i(\theta_T) | a_{T-1}, \theta_{T-1}].$$

By Lemma A.1 in the paper, there exists a function  $\tilde{p}_T^i(\theta_T^{-i}, \theta_{T-1}^i; a_{T-1}, \theta_{T-1}^{-i})$  such that for every  $a_{T-1}$ ,  $\theta_{T-1}^{-i}$ ,  $\theta_{T-1}^i$ , and  $r_{T-1}^i$ , we have

$$\pi_{T-1}^i(a_{T-1}, \theta_{T-1}) = \delta \sum_{\theta_T \in \Theta_T} \tilde{p}_T^i(\theta_T^{-i}, \theta_{T-1}^i; a_{T-1}, \theta_{T-1}^{-i}) \mu_T(\theta_T | a_{T-1}, \theta_{T-1})$$

and

$$\begin{aligned} & \sum_{\theta_T \in \Theta_T} \tilde{p}_T^i(\theta_T^{-i}, r_{T-1}^i; a_{T-1}, \theta_{T-1}^{-i}) \mu_T(\theta_T | a_{T-1}, \theta_{T-1}) \\ & \leq \sum_{\theta_T \in \Theta_T} \tilde{p}_T^i(\theta_T^{-i}, \theta_{T-1}^i; a_{T-1}, \theta_{T-1}^{-i}) \mu_T(\theta_T | a_{T-1}, \theta_{T-1}). \end{aligned}$$

Define a new period- $T$  transfer  $\bar{p}_T^i : \Theta_{T-1}^{-i} \times \Theta_{T-1}^i \times A_{T-1} \times \Theta_T \rightarrow \mathbb{R}$  for agent  $i$  as

$$\bar{p}_T^i(\theta_{T-1}^{-i}, \theta_{T-1}^i; a_{T-1}, \theta_T) = p_T^i(\theta_T) - \tilde{p}_T^i(\theta_T^{-i}, \theta_{T-1}^i; a_{T-1}, \theta_{T-1}^{-i}).$$

Note that  $\bar{p}_T^i$  is independent of  $\theta_T^i$ , so agent  $i$  still finds it optimal to report truthfully in period  $T$  under this new transfer  $\bar{p}_T^i$ . By construction, given that other agents always report truthfully, it follows that for every realized signal  $\theta_{T-1}^i$ , it is optimal for agent  $i$  to report  $r_{T-1}^i = \theta_{T-1}^i$ . Also note that for every signal profile  $\theta_{T-1}$ , agent  $i$ 's continuation payoff  $V_{T-1}^i$  in the truth-telling equilibrium is

$$V_{T-1}^i(\theta_{T-1}) = W_{T-1}(\theta_{T-1}).$$

Now for any  $t < T$ , suppose that there exist transfer schedules  $\{\bar{p}_{s+1}^i\}_{s=t}^{T-1}$  for each agent  $i$  such that truth-telling consists of a periodic ex post equilibrium from any period  $s = t, \dots, T$  and each agent  $i$ 's continuation payoff in the truth-telling equilibrium is  $V_t^i(\theta_t) = W_t(\theta_t)$  for all  $\theta_t$ . We need to construct a transfer  $\bar{p}_t^i : \Theta_t^{-i} \times \Theta_t^i \times A_{t-1} \times \Theta_{t-1}^{-i} \rightarrow \mathbb{R}$  for each agent  $i$  such that for all  $a_{t-1}$ ,  $\theta_{t-1}^{-i}$ ,  $\theta_{t-1}^i$ , and  $r_{t-1}^i$ ,

$$-\sum_{j \neq i} u^j(a_{t-1}, \theta_{t-1}) = \delta \sum_{\theta_t \in \Theta_t} \bar{p}_t^i(\theta_t^{-i}, \theta_{t-1}^i; a_{t-1}, \theta_{t-1}^{-i}) \mu_t(\theta_t | a_{t-1}, \theta_{t-1})$$

and

$$\begin{aligned} & \sum_{\theta_t \in \Theta_t} \bar{p}_t^i(\theta_t^{-i}, \theta_{t-1}^i; a_{t-1}, \theta_{t-1}^{-i}) \mu_t(\theta_t | a_{t-1}, \theta_{t-1}) \\ & \leq \sum_{\theta_t \in \Theta_t} \bar{p}_t^i(\theta_t^{-i}, r_{t-1}^i; a_{t-1}, \theta_{t-1}^{-i}) \mu_t(\theta_t | a_{t-1}, \theta_{t-1}). \end{aligned}$$

The existence of  $\bar{p}_t^i$  again follows from Lemma 1. Since  $\bar{p}_t^i$  is independent of  $\theta_t^i$ , incentive constraints for truth-telling in periods  $s = t, \dots, T$  still hold.

By construction, if other agents always report truthfully, then it is optimal for agent  $i$  to report  $r_{T-1}^i = \theta_{T-1}^i$ . Also note that in period  $t - 1$ , agent  $i$ 's continuation payoff in the truth-telling equilibrium is

$$V_{t-1}^i(\theta_{t-1}) = W_{t-1}(\theta_{t-1})$$

for all signal profiles  $\theta_{t-1}$ .

Finally, inducting on  $t$  backward, we have a sequence of transfers  $\{\bar{p}_t\}_{t=1}^T$ , where  $\bar{p}_1^i \equiv 0$  for each  $i$ . Therefore, truth-telling consists of a periodic ex post equilibrium under the efficient dynamic mechanism  $\{a_t^*, \bar{p}_t\}_{t=1}^T$ .  $\square$

**PROOF OF THEOREM 3.2 (INFINITE HORIZON).** Assume all agents other than  $i$  report their signals truthfully and focus on agent  $i$ 's incentive problem. Fix a socially efficient allocation rule  $a_t^*$ . By Assumptions 1 and 3, for each  $i$  and  $t$ , there exists a contingent transfer  $p_{t+1}^i(\theta_{t+1}^{-i}; a_t, \theta_t^{-i})$  that satisfies

$$-\sum_{j \neq i} u^j(a_t, \theta_t) = \delta \sum_{\theta_{t+1}^{-i} \in \Theta_{t+1}^{-i}} p_{t+1}^i(\theta_{t+1}^{-i}; a_t, \theta_t^{-i}) \mu_{t+1}^{-i}(\theta_{t+1}^{-i} | a_t, \theta_t)$$

for every  $a_t$  and  $\theta_t$ . Set  $p_1^i \equiv 0$ . Furthermore, since for any  $t \geq \bar{T}$ , the matrix

$$M_{t+1}^{-i}(a_t, \theta_t^{-i}) \equiv [\mu_{t+1}^{-i}(\theta_{t+1}^{-i} | a_t, \theta_t^{-i})]_{|\Theta_{t+1}^{-i}| \times |\Theta_t^{-i}|}$$

satisfies

$$\|(M_{t+1}^{-i}(a_t, \theta_t^{-i}))^+\| \leq \bar{D},$$

we can set the transfer  $p_{t+1}^i(\theta_{t+1}^{-i}; a_t, \theta_t^{-i})$  as

$$\mathbf{p}_{t+1}^i(\cdot; a_t, \theta_t^{-i}) = \frac{1}{\delta} (M_{t+1}^{-i}(a_t, \theta_t^{-i}))^+ \mathbf{u}^{-i}(\cdot; a_t, \theta_t^{-i}),$$

where  $\mathbf{p}_{t+1}^i(\cdot; a_t, \theta_t^{-i}) = (p_{t+1}^i(\theta_{t+1}^{-i}; a_t, \theta_t^{-i}))_{\theta_{t+1}^{-i}}$  and  $\mathbf{u}^{-i}(\cdot; a_t, \theta_t^{-i}) = (-\sum_{j \neq i} u^j(a_t, \theta_t^i, \theta_t^{-i}))_{\theta_t^{-i}}$  are column vectors. It follows that

$$\|\mathbf{p}_{t+1}^i(\cdot; a_t, \theta_t^{-i})\|_{\infty} \leq \frac{1}{\delta} \|(M_{t+1}^{-i}(a_t, \theta_t^{-i}))^+\| \cdot \|\mathbf{u}^{-i}(\cdot; a_t, \theta_t^{-i})\|_{\infty} \leq \frac{\bar{D}}{\delta} \|\mathbf{u}^{-i}(\cdot; a_t, \theta_t^{-i})\|_{\infty},$$

that is,

$$\max_{\theta_{t+1}^{-i}} |p_{t+1}^i(\theta_{t+1}^{-i}; a_t, \theta_t^{-i})| \leq \frac{\bar{D}}{\delta} \max_{\theta_t^i} \left| \sum_{j \neq i} u^j(a_t, \theta_t) \right|.$$

Thus, for any sequence  $(a_t, \theta_t)_{t \geq 1}$ , we have

$$\begin{aligned} & \sum_{t=1}^{\infty} \delta^{t-1} |u^i(a_t, \theta_t) - p_t^i(\theta_t^{-i}; a_{t-1}, \theta_{t-1}^{-i})| \\ &= \sum_{t=1}^{\bar{T}} \delta^{t-1} |u^i(a_t, \theta_t) - p_t^i(\theta_t^{-i}; a_{t-1}, \theta_{t-1}^{-i})| \\ & \quad + \sum_{t=\bar{T}}^{\infty} \delta^t |u^i(a_{t+1}, \theta_{t+1}) - p_{t+1}^i(\theta_{t+1}^{-i}; a_t, \theta_t^{-i})| \\ & \leq L^i + \sum_{t=\bar{T}}^{\infty} \delta^t \left[ |u^i(a_{t+1}, \theta_{t+1})| + \frac{\bar{D}}{\delta} \max_{\theta_t^i} \left| \sum_{j \neq i} u^j(a_t, \theta_t) \right| \right] \\ & \leq L^i + \max\{1, \bar{D}\} \cdot \left( \sum_{j=1}^N \max_{(a_t, \theta_t)_{t \geq 1}} \sum_{t=1}^{\infty} \delta^{t-1} |u^j(a_t, \theta_t)| \right), \end{aligned}$$

where  $L^i = \max_{(a_t, \theta_t)_{t=1}^{\bar{T}}} \sum_{t=1}^{\bar{T}} \delta^{t-1} |u^i(a_t, \theta_t) - p_t^i(\theta_t^{-i}; a_{t-1}, \theta_{t-1}^{-i})| < \infty$ . Hence, by Assumption 1, agent  $i$ 's discounted payoffs under the transfers  $p_{t+1}^i(\theta_{t+1}^{-i}; a_t, \theta_t^{-i})$  are always well defined. Applying the one-shot deviation principle, we only need to show that after any public history up to period  $t$ , agent  $i$  does not benefit from deviating to  $r_t^i \neq \theta_t^i$  and  $r_s^i = \theta_s^i$  for  $s > t$ .

If agent  $i$  reports truthfully in period  $t$ , i.e.,  $r_t^i = \theta_t^i$ , her continuation payoff is

$$\begin{aligned} & u^i(a_t^*(\theta_t), \theta_t) - p_t^i(\theta_t^{-i}; a_{t-1}, \theta_{t-1}^{-i}) \\ & \quad + \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} [W(\theta_{t+1}) - p_{t+1}^i(\theta_{t+1}^{-i}; a_t^*(\theta_t), \theta_t^{-i})] \mu_{t+1}(\theta_{t+1} | a_t^*(\theta_t), \theta_t) \\ & = W(\theta_t) - p_t^i(\theta_t^{-i}; a_{t-1}, \theta_{t-1}^{-i}). \end{aligned}$$

Suppose agent  $i$  deviates to a message  $r_t^i$  such that  $a_t^*(r_t^i, \theta_t^{-i}) = a_t^*(\theta_t)$ . Then her continuation payoff remains the same. Thus, deviating to a message  $r_t^i$  without changing the allocation is not profitable.

If agent  $i$  deviates to a message  $r_t^i$  such that  $a_t^*(r_t^i, \theta_t^{-i}) = a' \neq a_t^*(\theta_t)$ , then her continuation payoff satisfies

$$\begin{aligned} & u^i(a_t^*(r_t^i, \theta_t^{-i}), \theta_t) - p_t^i(\theta_t^{-i}; a_{t-1}, \theta_{t-1}^{-i}) \\ & \quad + \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} [W(\theta_{t+1}) - p_{t+1}^i(\theta_{t+1}^{-i}; a_t^*(r_t^i, \theta_t^{-i}), \theta_t^{-i})] \mu_{t+1}(\theta_{t+1} | a_t^*(r_t^i, \theta_t^{-i}), \theta_t) \end{aligned}$$

$$\begin{aligned}
&= u^i(a', \theta_t) - p_t^i(\theta_t^{-i}; a_{t-1}, \theta_{t-1}^{-i}) \\
&\quad + \delta \sum_{\theta_{t+1} \in \Theta_{t+1}} [W(\theta_{t+1}) - p_{t+1}^i(\theta_{t+1}^{-i}; a', \theta_t^{-i})] \mu_{t+1}(\theta_{t+1} | a', \theta_t) \\
&\leq W(\theta_t) - p_t^i(\theta_t^{-i}; a_{t-1}, \theta_{t-1}^{-i}),
\end{aligned}$$

where the inequality follows from the definition of  $a_t^*$ . Thus, deviating to a message  $r_t^i$  that changes the allocation is not profitable either. Therefore, we conclude that truth-telling consists of a periodic ex post equilibrium.  $\square$

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