1 Introduction

Advances in Internet technologies have resulted in an unprecedented growth in demand for data. In particular, the demand in the mobile Internet sector is doubling every year [1]. Given the limited wireless spectrum availability, the rate of growth in the supply of wireless capacity (per dollar of investment) is unlikely to match the rate of growth in demand in the long run. Internet Service Providers (ISPs) are therefore turning to new pricing and penalty schemes in an effort to manage the demand on their network, while also matching their prices to cost. But changes in pricing and accounting mechanisms, if not done carefully, can have significant consequences for the entire network ecosystem. Multiple stakeholders in this ecosystem, including operators, consumers, regulators, content providers, hardware and software developers, and architects of network technologies, have all been tackling these issues of charging and allocating limited network resources. Even back in 1974, while writing about the future challenges of computer communication networks, Leonard Kleinrock [2] noted:

How does one introduce an equitable charging and accounting scheme in such a mixed network system? In fact, the general question of accounting, privacy, security and resource control and allocation are really unsolved questions which require a sophisticated set of tools.

While much progress has been made on developing technical solutions, methods, and tools to address these issues, continued growth of the network ecosystem requires developing a better understanding of the underlying economic and policy perspectives. The broader area of network economics, which deals with the interplay between technological and economic factors of networks, is therefore receiving more attention from engineers and researchers today. Economic factors like pricing, costs, incentive mechanisms and externalities\footnote{Network externality is the notion that the cost or value of being a part of a network for an individual user depends on the number of other users using that network. For example, the value of a network grows as more users adopt and positive externalities are realized from being able to communicate with other users on the network. Similarly, when many users start to content for limited resources of a bottleneck link of a network, negative externalities from congestion diminish a user’s utility from accessing the network.} affect the adoption outcomes (i.e., success or failure of network technologies) and stability [3–5], influence network design choices [6, 7], and impact service innovation [8]. Conversely, technological limitations and regulatory constraints determine which kind of economic models are most suited to analyze a particular network scenario. This interplay between technology, economics, and regulatory issues is perhaps most easily observed in the case of broadband access pricing, for example, in evaluating the merits of “flat-rate” versus “usage-based” pricing or the neutrality of “volume-based” versus “app-based” accounting, etc. In this chapter we discuss the current trends in access pricing among service operators, factors that affect these decisions, analytical models and related considerations. In particular, we observe that Smart Data Pricing\footnote{SDP is the broad set of ideas and principles that go beyond the traditional flat-rate or byte-counting models and instead considers pricing as a network management solution.} is likely to emerge as an effective way to cope with increased network congestion. These smarter ways to count and treat data traffic illustrate three shifts in the principles of network management:
1. **Pricing for end-user’s Quality of experience (QoE) and not just byte-counting:** Simple policies like usage-based pricing (byte-counting) suffer from the disadvantages that users have to pay the same amount per unit of bandwidth consumed irrespective of the congestion levels on the network, and that it fails to account for the fact that different applications have different bandwidth requirements to attain a certain QoE for the user. SDP should try to match the cost of delivering application-specific desired QoE requirements of the user to the ISP’s congestion cost at the time of delivery.

2. **Application layer behavioral modifications to impact physical layer resource management:** Today’s smart devices with their easy to use graphical user interfaces are potential enablers of consumer-specified choice for access quality. Whether done manually or in an automated mode, user’s specification of their willingness to pay for their desired QoE of different applications can be taken in as inputs at the APP layer and used to control PHY layer resource allocation and media selection (e.g., WiFi offloading versus 3G).

3. **Smart mobile devices and customer-premise equipments (CPEs) as a part of network management system:** Instead of managing traffic only in the network core, SDP explores ways to make edge devices (e.g., smart mobile devices and customer-premise equipments like gateways) a part of the network resource allocation and management system. For example, instead of throttling traffic in the network core using the policy charging and rules function (PCRF), the edge devices (e.g., home gateways) themselves could locally regulate demand based on user’s budget, QoE requirements, and network load or available prices.

But before delving any deeper into pricing ideas, let us pause to address some common misconceptions often encountered in public discourse. First, many believe that the Internet’s development cost was borne by the United States Government, and hence the taxpayers have already paid for it. In reality, by 1994 the National Science Foundation supported less than 10% of the Internet and by 1996 huge commercial investments were being made worldwide [9].

Second, users often do not realize that the Internet is not free [9, 10] and think its cost structure is the same as that of information goods. In contrast to information goods, which tend to have zero marginal costs, Internet operators incur considerable network management operation and billing costs. MacKie-Mason and Varian [11] have shown that while the marginal cost of some Internet traffic can be zero because of statistical multiplexing, congestion costs can be quite significant. In regard to delivery of bits, It is worthwhile to note that there are two factors at play:

(a) There is large and growing variance in the QoE requirements of the different types of applications that consumers are using today

(b) The network operator’s cost of delivery per bit also has significant variance, ranging from essentially zero marginal cost in uncongested times to very high in congested times.

So why not match the right pairs? Most SDP ideas aim to do exactly that, i.e., match the operator’s cost of delivering bits to the consumer’s QoE needs for different application types.

Third, users fear that changes in pricing policy will increase their access fees. This need not always be the case, as one can design incentive mechanisms that reward good behavior (e.g., price discounts in off-peak hours to incentivize shifting of usage demand from peak times). In other words, smarter pricing mechanisms can increase consumer choices by empowering users to take better control of how they spend their monthly budget (e.g., under time-dependent usage-based pricing [12, 13], users have better control over their monthly bills by choosing not only how much they want to consume, but also when they do so). Neither will smarter pricing necessarily lead to provider management overhead or consumer confusion. Smart data pricing is also smart in its implementation and in its user interface design, as we will illustrate in later sections and case studies.

The following questions provide a useful way to think about SDP:

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3 Marginal cost is the change in the total cost that arises when the quantity produced changes by one unit, e.g., the cost of adding one more unit of bandwidth.
(I) Why do we need SDP? Isn’t network pricing is an untouchable legacy?

Section 2 provides an overview of the driving factors behind network congestion, and the challenges that it poses to various stakeholders of the network ecosystem are discussed in Section 3. We also discuss the rapid evolution in pricing among network operators and highlight in Section 4 how Smart Data Pricing ideas will be useful in finding solutions that can work in today’s networks.

(II) Haven’t other fields already used pricing innovations? What are the key SDP ideas relevant to communication networks?

We provide an overview of Internet pricing ideas in the existing literature in Section 5, including some pricing plans from the electricity and transportation industries that can be applied to broadband pricing. Section 6 provides an overview of a few examples and analytical models of known pricing mechanisms to illustrate key economic concepts relevant to the SDP literature. We also highlight many crucial differences between SDP in communication or data networks and pricing innovations in other industries.

(III) Isn’t SDP too complex to implement in the real world?

Section 7 provides a case study of a field trial of “day-ahead time-dependent pricing” and discusses the model, system design, and user interface design considerations for realizing this plan. It serves to demonstrate both the feasibility of creating such SDP plans for real deployment while also pointing out the design issues that should be kept in mind. The discussion highlights the end-to-end nature of an SDP deployment, which requires developing pricing algorithms, designing an effective interface for communicating those prices to users, and implementing an effective system to communicate between the users and ISPs.

(IV) What are the outstanding problems in enabling SDP for the Internet?

SDP is an active area of research in the network economics community and a set of 20 questions and future directions are provided in Section 8 for researchers and graduate students to explore. Many of these research questions have been generated based on the discussions at various industry-academia forums and workshops on SDP [14,15].

2 Driving Factors of Network Congestion

With mobile devices becoming smarter, smaller, and ubiquitous, consumers are embracing the technology and driving up the demand for mobile data. According to Cisco’s VNI [16], in 2012, global mobile data traffic grew more than 70 percent year over year, to 855 petabytes a month. The growth rate varied by regions, with 44% growth in Western Europe, and about 101% in the Middle East and Africa and a 95% growth rate in Asia Pacific. This section identifies some of the key factors that are expected to drive this growth in demand for mobile data (ref. Figure 1).

![Figure 1: Factors driving the demand for mobile data.](image1.png)

**Mobile Videos:** Video has been a major contributor to mobile data traffic growth, accounting for 51 percent of global mobile data traffic at the end of 2012. It is expected to account for 66 percent of global
mobile data traffic by 2017 [16]. A study by Gartner [17] states that the worldwide mobile video market
had 429 million mobile video users in 2011, projected to grow exponentially to 2.4 billion users by 2016.
Smartphones and tablet sales will contribute 440 million new mobile video users during the forecast period.
The report also forecasts that the worldwide share of mobile video connections on 3G/4G will increase from
18% in 2011 to 43% in 2015 [18]. These growth rates are being further fueled by mobile video content
delivery via mobile-optimized websites and video advertisements.

**Cloud Services and M2M Applications:** Cloud-based services that synchronize data across multiple
mobile devices, such as iCloud, Dropbox, and Amazon’s Cloud Drive, can also be a significant factor in traffic
growth for ISPs [19]. Similarly, machine-to-machine (M2M) applications that generate data intermittently
(e.g., sensors and actuators, smart meters) or continuously (e.g., video surveillance) often load the network
with large signaling overhead [20]. However, these traffic types also have some intrinsic time elasticities that
create opportunities for intelligently shifting them to low-congestion times through pricing incentives.

**Capacity-Hungry Applications:** The popularity of handheld devices has also led to rapid growth in
the development of bandwidth-hungry applications for social networking, file downloads, music and video
streaming, personalized online magazines, etc. Virgin Media Business reports that the average smartphone
software uses 10.7 MB per hour, with the highest-usage app, Tap Zoo, consuming up to 115 MB/hour. In the
current ecosystem, app developers do not have enough incentives to account for ISP congestion problems,
and consequently many smartphone apps are not optimized for bandwidth consumption.

**Bandwidth-Hungry Devices:** The widespread adoption of handheld devices, equipped with powerful
processors, high-resolution cameras, and larger displays, has made it convenient for users to stream high-
quality videos and exchange large volumes of data. Data from laptops with 3G dongles and netbooks with
wireless high-speed data access contributes the most to wireless network congestion [20]. As for smartphones,
Cisco projects that the average monthly data usage will rise from 150 MB in 2011 to 2.6 GB in 2016 [16].
New features like Siri on the iPhone 4S, which has doubled Apple users’ data consumption, are driving this
growth [21].

Before delving deeper into the promises that smart data pricing (SDP) holds [14] in addressing congestion
issues, in the next section we first explore how these trends are impacting the various stakeholders of the
network ecosystem, i.e., network operators, consumers, app developers, and content providers.

### 3 Impact on the Network Ecosystem

#### 3.1 ISPs’ Traffic Growth

By 2016, ISPs are expected to carry 18.1 petabytes per month in managed IP traffic. But this growth is
causing concern among ISPs, as seen during Comcast’s initiative to cap their wired network users to 300 GB
per month [22]. Even back in 2008, Comcast made headlines with their decision (since reversed) to throttle
Netfix as a way to curb network congestion [23]. Video streaming from services like Netflix, Youtube, and
Hulu, are a major contributor to wired network traffic. In fact Cisco predicts that by 2016 fixed IPs will
generate 40.5 petabytes of Internet video per month [1].

Rural local exchange carriers (RLECs) are also facing congestion in their wired networks due to the
persistence of the middle-mile problem for RLECs. Although the cost of middle mile bandwidth has declined
over the years (because of an increase in the DSL demand needed to fill the middle mile), the bandwidth
requirements of home users have increased quite sharply [24]. Still, the average speed provided to rural
customers today fails to meet the Federal Communications Commission’s (FCC) broadband target rate of
4 Mbps downstream speed for home users. The cost of middle mile upgrades to meet this target speed
will be substantial and is a barrier to digital expansion in the rural areas [24]. Research on access pricing
as a mechanism to bring down middle mile investment costs by reducing the RLEC’s peak capacity and
over-provisioning needs can therefore also help in bridging the digital divide.

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4Cisco’s definition of “managed IP” includes traffic from both corporate IP wide area networks and IP transport of television
and video-on-demand.
3.2 Consumers’ Cost Increase

Network operators have begun to pass some of their network costs to consumers through various penalty mechanisms (e.g., overage fees) and increasing the cost of Internet subscriptions. For instance, when Verizon announced in July 2012 that they were offering shared data plans for all new consumers and discontinuing their old plans, many consumers ended up with higher monthly bills [25]. To remain within monthly data caps, consumers are increasingly relying on using usage-tracking and data compression apps (e.g., Onavo, WatchDogPro, DataWiz) [26] that help to avoid overage fees. Such trends are common in many parts of the world; in South Africa, for instance, consumers use ISP-provided usage-tracking tools [27] to stay within the data caps. Similarly in the U.S., research on in-home Internet usage has shown that many users are concerned about their wired Internet bills and would welcome applications for tracking their data usage and controlling bandwidth rates on in-home wired networks [28, 29]. Empowering users to monitor their data usage and control their spending has led to a new area of research that considers economic incentives and human-computer interaction (HCI) aspects in a holistic manner [30].

3.3 Application Developers’ Perspective

Introducing pricing schemes that create a feedback-control loop between the client side device and network backend devices requires new mobile applications that will support such functionalities. However, most mobile platforms in use today (e.g., iOS, Android, and Windows) have different levels of platform openness. The iOS platform for iPhones and iPads has several restrictions: it strictly specifies what kind of applications can run in the background and further prevents any access other than the standard application programming interfaces (APIs). For example, obtaining an individual application’s usage and running a pricing app in the background are prohibited. By contrast, the Android and Windows platforms allow these features, e.g., introducing an API to report individual applications’ usage to third-party apps. An interesting direction is to initiate the creation of open APIs between user devices and an ISP’s billing systems. For example, this can allow the user devices connected to the ISP’s network to easily fetch current pricing information from the network operator, while also allowing the ISP to easily test and deploy new pricing schemes through the standardized interface.

Wireless ISPs’ current billing systems (including 2G, 3G, and 4G) heavily depend on the RADIUS (Remote Authentication Dial In User Service) protocol, which supports centralized Authentication, Authorization, and Accounting (AAA) for users or devices to use a network service [31]. In particular, RADIUS accounting [32] is well suited to support usage-based pricing, since it can keep track of the usage of individual sessions belonging to each user. Interim-update messages to each session can be sent periodically to update the usage information. However, RADIUS accounting lacks support for dynamic pricing plans, which require time-of-day usage at various time scales.

Consequently, several protocols need to be extended to support these new pricing ideas. Another interesting direction is the creation of an open API between user devices and an ISP’s billing systems. The open API will foster innovations in pricing for both consumers and providers. For example,

5Note that interim update messages are sent periodically when a session joins the system, and hence, the time interval for interim updates should be kept low to support sending time-of-day usage, which may introduce significant control overhead.

6Note that interim update messages are sent periodically when a session joins the system, and hence, the time interval for interim updates should be kept low to support sending time-of-day usage, which may introduce significant control overhead.
the user devices connected to the ISP’s network can easily fetch their pricing, billing, and usage information from the network, and the ISP can also easily test and deploy new pricing schemes through the standard interface.

3.5 Content Delivery Issues

Any change in access pricing has to be studied in the larger context of Internet’s net-neutrality and openness. These discussions center around the issues of (a) who should pay the price of congestion (i.e., content providers or consumers) and (b) how such pricing schemes should be implemented (i.e., time-of-day, app-based bundles, etc.). The major concern with policy change is the possibility of paid prioritization of certain content providers’ traffic, price discrimination across consumers, and promoting anti-competitive behavior in bundled offerings of access plus content. While such developments can indeed hurt the network ecosystem, one aspect that should receive more attention is the threat to data usage even under simple usage-based or tiered data plans. As Internet users become more cautious about their data consumption [33], content providers are providing new options to downgrading the quality of experience (QoE) for their users to help them save money. For instance, Netflix has started allowing “users to dial down the quality of streaming videos to avoid hitting bandwidth caps” [34]. Additionally, it is “giving its iPhone customers the option of turning off cellular access to Netflix completely and instead relying on old-fashioned Wi-Fi to deliver their movies and TV shows” [35]. Thus, the ecosystem today is being driven by an attitude of penalizing demand and lessening consumption through content quality degradation.

Network researchers are investigating these issues broadly along two lines of work: (i) opportunistic content caching, forwarding, and scheduling, and (ii) budget-aware online video adaptation. Opportunistic content delivery involves the smart utilization of unused resources to deliver higher QoE; for example, to alleviate the high cost of bulk data transfers, Marcon et al. [36] proposed utilizing excess bandwidth (e.g., at times of low network traffic) to transmit low-priority data. Since this data transmission does not require additional investment from ISPs, they can offer this service at a discount, relieving data transfer costs for clients. While utilizing excess bandwidth introduces some technical issues (e.g., the potential for resource fluctuations), a prototype implementation has shown that they are not insurmountable [37]. The second stream of works on online video adaptation systems, such as Quota Aware Video Adaptation (QAVA) [38], have focused on sustaining a user’s QoE over time by predicting her usage behavior and leveraging the compressibility of videos to keep the user within the available data quota or her monthly budget. The basic idea here is that the video quality can be degraded by non-noticeable amounts from the beginning of a billing cycle based on the user’s predicted usage so as to avoid a sudden drop in QoE due to throttling or overage penalties when the monthly quota is exceeded.

3.6 Regulatory Concerns

Pricing in data networks has remained a politically charged issue, particularly for pricing mechanisms that can potentially create incentives for price discrimination, non-neutrality, and other anti-competitive behavior through app-based pricing or bundling of access and content. Academics have already cautioned that the ongoing debate on network neutrality in the U.S. often overlooks service providers’ need for flexibility in exploring different pricing regimes [39]:

Restricting network providers’ ability to experiment with different protocols may also reduce innovation by foreclosing applications and content that depend on a different network architecture and by dampening the price signals needed to stimulate investment in new applications and content.

But faced with the growing problem of network congestion, there has been a monumental shift in the regulatory perspective in the US and other parts of the world. This sentiment was highlighted in FCC Chairman J. Genachowski’s 1 December 2010 statement [40], which recognizes “the importance of business innovation to promote network investment and efficient use of networks, including measures to match price to cost.”
4 **Smart Data Pricing**

Broadband access pricing and demand control practices have rapidly evolved among U.S. ISPs since 2008, as seen in Figure 2. Over the past few years, ISPs around the world have started to offer innovative pricing plans, including usage-based and app-based pricing to tackle the problem of network congestion [41]. Smart Data Pricing (SDP) [15] is an umbrella term for a suite of pricing and policy practices that have been proposed in the past or are being explored as access pricing options by operators instead of the traditional flat-rate model. Such SDP models can include any or a combination of the following mechanisms, which will be discussed later in the chapter: (a) Usage-based pricing/metering/throttling/capping, (b) Time/location/congestion-dependent pricing, (c) App based pricing/sponsored access, (d) Paris metro pricing, (e) Quota-aware content distribution. SDP does not necessarily need to be an explicit pricing mechanism, it can even be in the form of innovative congestion management tools like WiFi offloading or “fair-throttling”7.

The basic ideas of congestion pricing have received much attention as a research topic both in computer networks and information systems literature, and are once again getting a fresh look from academics in the recent years. Given the change in the economic and regulatory environment of Internet pricing, it is likely that some of the ideas will be realized in future data plans. However, research in the design of such smart data pricing plans should account for some new factors: (i) the growth in traffic with high time-elasticity of demand (e.g., downloads, P2P, cloud backup, M2M) and the ability to schedule such traffic to a less congested time without user-intervention, (ii) revisit the issue of dividing the elements of a congestion control-feedback loop between the network backend and the smart end-user devices, (iii) develop new system architecture to deploy these pricing ideas and demonstration of their potential benefits through field trials. In other words, it requires understanding both the *economic theory* of pricing models as well as the *systems engineering* and *human-computer interaction* aspects of realizing such data plans.

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Fair throttling involves accounting for user’s usage history of contributing to congestion in determining what share of available bandwidth the user should receive in a congested time.
A Review of Smart Data Pricing

Smart data pricing encompasses a wide variety of different pricing algorithms and proposals. In this section, we briefly discuss some of these ideas, following the taxonomy given in Figure 3. We include a brief overview of related pricing plans in the electricity and transportation industries, which can help yield insights into the feasibility of various forms of SDP for data, as well as ideas for new pricing plans. Other, more thorough reviews may be found in [42–44].

A primary goal of SDP is to creating the right incentives (or price points) for the user to modify their usage behavior so as to help ISPs with better resource allocation and utilization. But creating these incentives require ISPs to think account for the users’ responses to the prices offered. Of particular relevance is the timescale associated with the pricing mechanism – do the prices continually change as network load changes? If so, how frequently and by how much?

Static pricing plans are those that change prices on a relatively longer timescale, e.g., months or years, i.e., the offered prices do not vary with immediate changes in the network congestion level. The popularity of these plans arises from the certainty they provide to a user’s expected monthly bill. For instance, tiered data plans with pre-specified rates are prevalent in the United States and several European and Asian ISPs offer usage-based pricing in which users are charged in proportion to their usage volume. But such usage-based pricing leaves a timescale mismatch: ISP revenue is based on monthly usage, but peak-hour congestion dominates its cost structure (e.g., network provisioning costs increase with the peak-hour traffic). Another well-known pricing plan is time-of-day (ToD) pricing, in which users are charged higher prices during certain “peak” hours of the day. But even with ToD pricing, the hours deemed as “peak” are fixed, which results in two challenges. First, traffic peaks arise in different parts of the networks at different times which can be hard to predict in advance, and it may end up creating two peaks during the day—one during peak periods, for traffic that cannot wait for several hours for lower-price periods, and another peak during discounted “off-peak” periods for time-insensitive traffic [45]. We discuss several of these existing static pricing plans.
and proposals in greater detail in Section 5.1.

Dynamic pricing takes the ToD idea further in that it does not pre-classify peak and off-peak periods, instead adjusting prices at a finer timescale or by location in response to the network congestion. However, prices that vary depending on the current network load can be sometimes inconvenient for users. Hence, dynamic pricing variants for SDP, such as automated “smart market” [46, 47], raffle-based pricing [48, 49], and day-ahead pricing [13], have been proposed to guarantee the prices a day in advance to give users some certainty about the future prices on offer. Each day, new prices are computed for different times (e.g., hours) of the next day, based on predicted congestion levels. A detailed discussion on these dynamic pricing proposals will be provided in Section 5.2.

5.1 Static Pricing

Due to the fixed nature of their prices, static data plans do not generally allow ISPs to adapt to real-time congestion conditions. In particular, the ISP cannot prevent or alleviate network congestion at peak times by manipulating the prices. On the other hand, static pricing tends to be more acceptable to users, as it offers more certainty and is simpler than dynamically changing prices. Indeed, the most basic form of static pricing, flat pricing, is also the most simple for users, though it does not impose any sort of usage incentives [48]. Some other important examples of static pricing include the following:

Usage-based: In its purest form, usage-based pricing charges users in proportion to the amount of data that they consume, without regard to the type of data (e.g., application) or time of consumption. The principal advantage of such a pricing plan lies in its relative simplicity, though it also imposes a monetary penalty on heavy (i.e., high-usage) users that can help to reduce congestion [49, 50]. However, usage-based pricing requires users to keep close track of their usage in order to determine how much they have spent on data, though such measures are not impossible [51].

Tiered: A more common variant of pure usage-based pricing is tiered pricing, in which users pay a fixed amount of money for a monthly data cap (e.g., $30 for 3GB). This fixed fee covers usage up to the cap, after which users may pay another fixed fee to increase the cap by a discrete amount, e.g., $10 per extra GB. Thus, tiered or capped pricing can be viewed as a discretization of usage-based pricing. Many ISPs have adopted such a pricing plan or another variant in which the data cap is shared across several devices (i.e., a shared data plan). Like usage-based pricing, tiered pricing is simple for users to understand and penalizes heavy usage.

Quality of Service (QoS) classes: Some static pricing plans offer multiple traffic classes with different qualities of service (QoS). A simple differentiated pricing plan is Paris metro pricing, which is named after an actual pricing practice on the Paris metro in the 1900s [52]. In Paris metro pricing, the ISP separates data traffic into different logical traffic classes and charges different prices for logically separate traffic classes (i.e., each class is identical to the others in their treatment of data packets). Only users willing to pay a higher price will adopt this traffic class, which leads to a better QoS due to fewer users. Other researchers have investigated more direct forms of QoS pricing, in which users can indicate their desired QoS in their packets and are charged a higher per-byte fee for higher QoS [53, 54].

Another form of QoS pricing is token pricing, in which users receive tokens at a fixed rate (e.g., 1 per minute) [55]. Users can then spend these tokens to send some of their traffic at a premium QoS; users can choose the timing of these premium sessions, e.g., to coincide with their individual priorities and preferences.

Negotiated contracts: In these types of pricing schemes, users pre-negotiate contracts with the ISP regarding the price of sending traffic over the network. The main research question for such contracts is then characterizing this user-ISP interaction and both parties’ optimal decisions. For instance, in reservation-based pricing, users specify a monthly budget for data; the ISP can then accept or reject users’ connections based on users’ remaining budget and the real-time network congestion [56–58].

In expected capacity pricing, users similarly negotiate a price in advance based on an “expected” quality of service (e.g., file transfer time), so that at congested times the ISP can freely allocate network resources based on whether a given packet lies “within” a user’s purchased traffic profile [59]. The goal of this pricing scheme is to “provide additional explicit mechanisms to allow users to specify different service needs, with the presumption that they will be differentially priced” [59].” Expected capacity pricing allows users to explicitly specify their service expectation (e.g., file transfer time), while accounting for differences in applications’
data volume and delay tolerance. The idea is that by entering into profile contracts for expected capacity with the operator, different users should receive different shares of network resources when the network gets congested [44]. One specific proposal to realize this service involved traffic flagging (i.e., each packet is marked as being in or out of the user’s purchased profile, irrespective of network congestion level) by a traffic meter at access points where the user’s traffic enters the network. This is followed by congestion management at the switches and routers where packets marked as out are preferentially dropped during congested periods, but are treated in an equal best-effort manner at all other times. The expected capacity is thus not a capacity guarantee from the network to the user, but rather a notion of the capacity that a user expects to be available and a set of mechanisms that allow him or her to obtain a different share of the resource at congested times.

An ISP offers similar contracts under cumulus pricing, but users can re-negotiate the price after passing “cumulus” usage points [60]. Cumulus pricing consist of three stages: specification, monitoring, and negotiation. A service provider initially offers a flat-rate contract to the user for a specified period based on the user’s estimate of resource requirements. During this time the provider monitors the user’s actual usage and provides periodic feedback to the user (by reporting on “cumulus points” accumulated from their usage) to indicate whether the user has exceeded the specified resource requirements. Once the cumulative score of a user exceeds a predefined threshold, the contract is renegotiated.

**App-based and sponsored content:** Different applications consume different amounts of data traffic (e.g., streaming video consumes much more data than retrieving emails). Some researchers have thus proposed app-based pricing, in which users are charged different rates for different apps [61]. Such pricing plans also include “zero-rated” apps, whose traffic is free for the user. A variant of such pricing schemes is “sponsored content”, in which a third-party (advertiser, content provider, or the ISP itself) “sponsors” some part of the traffic in return for accessing specific content or at less congested times.

App-based plans have been offered in Europe, largely on a promotional basis. However, app-based pricing presents technical challenges for ISPs—ISPs need to identify and track how much data each user consumes on specific applications and involves certain privacy considerations. Moreover, some apps open links in separate apps (e.g., links in Flipboard may open a separate Internet browser), creating confusion among users as to the app to which some traffic belongs, and whether the traffic counts to the sponsored volume or not. Even in academia, sponsored content research is relatively sparse, though a few initial models have been developed [62].

**Time-of-day (ToD):** ToD pricing charges users different usage-based rates at different times of the day (e.g., peak and off-peak hours) [58]. The free nighttime minutes offered for voice calls by most US ISPs before 2013 are one simple of ToD pricing. However, as the peak times and rates are fixed in advance, ToD pricing can end up creating two peaks, one during the “peak” period and one in the “off-peak” period; indeed, this phenomenon was observed in Africa when MTN Uganda offered discounted prices for voice calls made at night.

ToD pricing for broadband data in practice today are two-period plan with different charging rates at day and night times. For example, BSNL in India offers unlimited night time (2-8 am) downloads on monthly data plans of Rs 500 ($10) and above. Other variations of ToD pricing are offered elsewhere; for instance, the European operator Orange has a “Dolphin Plan” for £15 ($23.50 USD) per month that allows unlimited web access during a “happy hour” corresponding to users’ morning commute (8-9 am), lunch break (12-1 pm), late afternoon break (4-5 pm), or late night (10-11 pm).

### 5.2 Dynamic Pricing

Dynamic pricing allows prices to be changed in (near) real-time, which unlike static pricing allows an ISP to adjust its prices in response to observed network congestion. However, in doing so the ISP significantly complicates its pricing, making it much harder for users to understand. Thus, implementing and offering dynamic pricing plans requires ISPs to account for human factors that can make real-time changes in price more amenable to users. We can divide dynamic pricing plans into four types:

**Raffle-based:** Under raffle-based pricing, the exact price that users pay is determined after-the-fact, i.e., in a probabilistic manner that depends on the amount of data consumed by a user [63]. Users have a chance to receive a monetary reward during congested times if they agree to shift their demand to less-congested times.
times. They are entered into a lottery for a fixed reward, where the probability of winning the lottery depends on the user’s contribution to the total amount of traffic shifted.

**Real-time congestion:** When ISPs monitor their network for real-time signs of congestion, they can immediately increase prices when congestion is observed, and decrease them when the traffic load is relatively light. Thus, there is a *feedback loop* between ISPs offering prices and users correspondingly adjusting their usage [64,65]. This *responsive pricing* sets prices so as to keep user demand under a certain level; if an ISP further chooses the prices so as to optimize a proportional fairness criterion on the amount of bandwidth allocated to different users, we obtain *proportional fairness pricing* [66,67]. Many variants of responsive pricing have been proposed in the literature, principally as a congestion control mechanism; in practice, it would be impractical for users to manually respond to the prices offered for each Internet connection. Hence, automation of the client devices to intelligently adapt their data consumption will be necessary to realize such real-time pricing.

Another form of congestion pricing, *effective bandwidth pricing*, incorporates a form of “QoS” by charging users based on their connection’s peak and mean rates [68]. One can also explicitly incorporate different QoS by using *priority pricing*, in which users can pay less by accepting a longer delay at congested times [69]. If the prices are chosen correctly, the system reaches an equilibrium, in which each user’s packets are processed within the delay paid for.

**Auction-based:** One disadvantage of real-time congestion pricing is that in practice, the ISP must set the prices (just) before observing user behavior. Since user demand can change with time, the ISP may end up setting non-optimal prices due to outdated assumptions of user demand. “Smart market” pricing addresses this slight delay with an auction-like scheme, in which users attach a bid to their packets that signifies their willingness to pay [46,47]. ISPs then admit a limited number of packets in descending order of the bids so as to limit network congestion. Users are charged the lowest bid admitted, which represents the “cost of congestion.” While smart market pricing allows true real-time pricing, it also requires automated agents on user devices to make bids as necessary and keep track of the final amount charged.

**Day-ahead time-dependent:** In an effort to increase user certainty of the prices, ISPs can guarantee their time-dependent prices one day in advance, and continue to compute new prices to maintain this sliding one-day window of known prices [13,70]. Users can then plan their usage in advance, while ISPs can adapt their estimates of user behavior and usage volume in calculating the prices for subsequent days. Day-ahead pricing thus strikes a balance between user convenience and ISP adaptability. A schematic of the resulting feedback loop is shown in Figure 4. In the next section, we examine a prototype of day-ahead pricing for mobile data in order to illustrate the “end-to-end” nature of an SDP deployment.
5.3 Comparison with other Markets: Similarities and Differences

Much like today’s data networks, the electricity and transportation markets have both experienced a capacity shortage over the past decade and have developed new pricing plans to cope with the resulting shortfall. By comparing electricity usage and road traffic to data traffic, we see that these industries are quite similar to data networks, and that their pricing plans may inform SDP for data networks. Indeed, both industries observe a highly variable demand throughout the day, allowing for both static and dynamic pricing plans much like those proposed for data networks. In particular, time-of-day road tolls have been offered in many transportation networks, and many electricity utilities have both trial-ed and deployed time-of-day pricing. We give an overview of such pricing plans in this section, with the aim of highlighting the unique challenges posed by refining such pricing plans to accommodate broadband data networks. Figure 5 gives an overview of the analogies between pricing plans proposed for the transportation, broadband, and electricity industries.

The similarities and differences between these pricing plans reflect the different industries for which they are designed. In particular, we observe the following distinctions:

1. **Real-time communication:** User devices on data networks, e.g., smartphones, are capable of real-time communication with the ISP network, for instance if the prices change in real time. But such real-time feedback for price (toll) changes in road networks are harder to realize and will require additional infrastructural support. However, in electricity markets new smart grid interfaces have been developed that can display real-time prices, but individual devices, e.g., air conditioners or vacuum cleaners, generally cannot interact directly with the provider smart grid and require a smart energy controller to schedule their energy consumption.

2. **Elasticity of demand:** Smartphones’ ability to communicate with the ISP network in real time is complemented by users’ ability to easily control their usage on individual devices and applications. For instance, a user could simply stop streaming a video if the price increases; such measures could also be automated within the device. The users’ decisions will reflect the large variance in the demand elasticity of different types of applications (some of which, such as software downloading, P2P, file backup may not even require user participation and can be completed in small chunks whenever low prices are available). In contrast, devices on electricity networks typically consume energy constantly as long as they are active. There is little opportunity for various devices (e.g., washer, dryer, lights) of completing their activities in an intermittent manner without requiring active user engagement. In road networks, the contrast is even more stark; users in the network (e.g., already driving) cannot easily exit or postpone their activity.

3. **Long-term volatility:** Most people do not have a concrete idea of how much data they consume each month, partly because most data plans charged a flat fee for unlimited access until recently. Moreover, an individual’s data usage can vary greatly from day to day, as relatively casual actions such as streaming a video can have a large impact on total data consumption. In contrast, most people have a relatively good idea of how much they drive per day, and the distance traveled, and road toll fees. Thus, people may be more able to plan ahead by buying permits (e.g., EZ pass) or carpooling during congested hours. In electricity markets, household demand similarly does not vary much from day to day. Consumption of electricity is largely driven by user needs, rather than the more volatile preferences that drive demand for Internet data.

5.3.1 Static Pricing

Traditional road pricing has been simple flat-rate cordon pricing, analogous to flat pricing of data. Pricing by vehicle type, analogous to app-based pricing for data, has also been proposed, e.g., charging trucks more than passenger vehicles [71]. Forms of flat-rate priority pricing have also been implemented, most obviously in the Paris metro’s pricing scheme from which data networks’ Paris metro pricing takes its name. High-occupancy vehicle or “carpool” lanes can also be seen as analogous to priority pricing, in that users can self-select to take advantage of less-congested HOV lanes by paying the higher “price” of carpooling with other passengers.
In a common variation on flat-rate tolls in road networks, the flat-rate toll can vary depending on the time of the day [72], for a pricing plan analogous to time-of-day pricing. However, such charges are still flat-rate, i.e., they do not depend on the distance traveled over the road network. Distance-traveled pricing, analogous to usage-based pricing in broadband networks in that users’ charge is proportional to the distance traveled, has also been proposed for transportation networks, and has been offered in Taiwan and the U.S. [73, 74]. In fact, the Taiwanese implementation varies the distance-traveled price depending on the time of the day; it is thus a form of time-of-day pricing.

Time-of-day pricing is the major form of static pricing practiced in the electricity industry. Most trials of time-of-day pricing for electricity markets have focused on peak/off-peak pricing, as electricity demand generally follows a less variable pattern than data demand, with extremely low demand at night and higher demand during the day. For instance, one major source of electricity consumption is air conditioning in the summer, which follows a fairly regular pattern of being on during the day and off at night. Indeed, many trials have shown time-of-day pricing to be effective in reducing excess demand during peak hours. One popular variant that has also been tried is critical peak pricing, in which certain days are designated as “critical,” e.g., especially hot days during the summer. On these critical days, the peak price goes up to increase users’ incentives to reduce demand. Some studies with California consumers have shown that critical-peak pricing is much more effective than simple peak/off-peak pricing [75, 76]. In this trial, users with “smart devices” that automatically reduce energy consumption reduced their usage almost twice as much as other users, indicating that user interfaces for interacting with prices are critical to the success of dynamic or time-of-day pricing plans.

### 5.3.2 Dynamic Pricing

Congestion-based pricing has been proposed in both the transportation and electricity industries. One form of congestion pricing in road networks charges users at a price-per-mile rate that is based on their average speed. However, though considered in Cambridge, U.K., this pricing plan was never implemented [72]. A more complex pricing plan proposed using several dynamic origin-destination models to compute effective route costs depending on real-time congestion conditions in the road network [77]. Drivers would then be able to take shorter routes for higher prices; however, computing these prices is highly non-trivial, and it would be difficult to communicate the prices of different routes to drivers in the network.

One variation on dynamic pricing for road networks involves a secondary market, in which governments can sell permits to pass through congested areas. Users can then form a market to sell these permits [78]. However, similar pricing schemes have not yet been proposed for data networks, likely due to the difficulty in setting up a secondary market among users. Moreover, the increasingly ubiquitous nature of data connectivity has made it more impractical to ask users to completely refrain from consuming data at congested times.

Some electricity pricing researchers have argued that dynamic pricing can lead to significant gains over simple ToD pricing [79]. Both congestion pricing and auction pricing have been proposed for electricity
markets; however, such works often have a more consumer-focused outlook than do pricing proposals for data.

In an auction-based electricity market, electricity distributors can make dynamic offers to users (i.e., households) who respond with real-time electricity purchases. Auction schemes have been proposed that take into account varying electricity capacity, which can significantly improve market efficiency [80].

Many papers have studied responsive dynamic pricing from a user’s perspective of predicting future prices and scheduling devices accordingly. A game-theoretic framework can be used to model users’ scheduling of energy usage as a cooperative game; if users cooperate, the total demand on a network can then be reduced, enhancing efficiency [81]. Other works propose algorithms to predict prices in advance [82, 83] and schedule user devices accordingly; users thus try to anticipate electricity providers’ real-time pricing. This price prediction is not necessary with day-ahead pricing, though day-ahead pricing offers electricity providers less flexibility [84]. However, such prediction and scheduling algorithms, which have received relatively little attention for data usage, might help make dynamic congestion pricing for data more amenable to users.

Other papers consider users’ actions in conjunction with the provider’s price determination [85]. Such approaches can facilitate a study of social welfare, and may incorporate uncertainty in supply and demand [86–88]. One may also consider a feedback loop between users and an electricity provider, which can yield real-time pricing algorithms analogous to those for dynamic congestion control in data networks [89]. Some works have also considered appliance-specific models of user demand, analogous to different applications having different demands for data [90]. A unique feature of these models is the ability to store electricity, e.g., in batteries, for use in later congested periods. Thus, from the provider’s perspective, the user can effectively shift his or her energy consumption to less congested times, even though from the user’s perspective nothing has been shifted.

6 Economics of SDP

Given the wide variety of SDP pricing algorithms presented in Section 5, a thorough discussion of the theory behind each one is impractical for a book chapter. In this section, we instead select four representative scenarios to illustrate some of the key economic principles often used in formulating different types of pricing algorithms. We first consider static pricing on a single link, and then consider both real-time dynamic pricing and day-ahead time-dependent pricing.

6.1 Usage-Based Pricing: A Single Link Example

An operator generally sets its mobile data prices so as to achieve a certain objective, e.g., maximizing profit. In this section, we review some standard economic concepts that are often used in formulating such objective functions. We consider two agents: end users and ISPs.8 For simplicity, we consider only one ISP with a given set of customers, and we suppose that the ISP wishes to build a last-mile access link in its network. The ISP wishes to determine both the capacity to provision on this link, as well as the price per unit bandwidth to charge its users on the link. We denote the capacity with the variable x, and the price by the variable p. The ISP-user interaction is summarized in Figure 6.

We first consider users’ decisions to purchase certain amounts of bandwidth on the ISP’s new access link. In modeling this user behavior, we suppose that each user acts so as to maximize his or her utility function, denoted by \( U_j(x_j, p) \) for each customer \( j = 1, 2, \ldots, J \). The function \( U_j \) gives the amount of utility received from purchasing \( x_j \) amount of bandwidth, for a price \( p \) per unit bandwidth. Thus, given a price \( p \), if \( U_j(y_j, p) > U_j(x_j, p) \), user \( j \) prefers to purchase \( y_j \) units of bandwidth, rather than \( x_j \) units. Since the ISP chooses the value of \( p \), each user \( j \) takes the price as given and chooses the quantity of bandwidth to purchase \( (x_j) \) so as to maximize the utility \( U_j(x_j, p) \). We denote this utility-maximizing quantity as \( x_j^*(p) \).

These functions \( x_j^*(p) \) are called users’ demand functions; adding them up, we obtain the aggregate demand function, \( D(p) = \sum_j x_j^*(p) \).

We now consider the ISP’s problem of choosing a link capacity \( x \) and price \( p \). Assuming full utilization of the link capacity, the ISP chooses \( p \) and \( x \) so as to maximize its utility function. Usually, the ISP’s utility

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8Sponsored content and app-based pricing models may also include content providers as a separate type of agent.

9The argument \( p \) emphasizes the fact that this optimal bandwidth \( x_j^* \) depends on the price \( p \) offered by the ISP.
is simply its profit, but other functions can be used. We write the ISP profit as \( px - c(x) \), where \( px \) is the ISP revenue and the function \( c(x) \) denotes the cost of building a link of capacity \( x \). Given \( p \), the ISP can then find \( x^*(p) \), the optimal link capacity as a function of the price \( p \). We use \( S(p) = x^*(p) \) to denote this supply function.

When the user and ISP are at a market equilibrium, supply equals demand: \( D(p) = S(p) \). At such a price \( p^* \), each user maximizes his or her own utility by purchasing \( x^*_j(p^*) \) amount of bandwidth, and the ISP maximizes its utility by providing just enough capacity \( x^*(p^*) = \sum_j x^*_j(p^*) \) to support those users’ demands.

Having derived the equilibrium price and capacity, we can now analyze properties of this solution. One of the most common is to compute the social welfare, defined as the sum of the utility received by all users \( j \) and the ISP, i.e.,

\[
\sum_j U_j(x^*_j(p^*), p^*) + p^* \sum_j x^*_j(p^*) - c\left(\sum_j x^*_j(p^*)\right)
\]

where \( x^*_j(p^*) \) is understood to be evaluated at the equilibrium price \( p^* \). This social welfare can be divided into two portions: the user surplus, or the sum of user utilities, and the ISP surplus, or the utility (here, profit) obtained by the ISP. Depending on the utility functions \( U_i \) and the cost function \( c \), the total social welfare may change, and the users and ISP may receive different portions of the overall social welfare.

Before moving on, we pause to discuss some of the more common extensions of the simple problem above. One is to introduce budget constraints on each user’s utility maximization problem: the user may not want to spend more than a certain amount \( B_j \), in which case each user \( j \) maximizes the utility \( U_j(x_j, p) \) subject to the constraint \( px_j \leq B_j \). We may also consider a situation in which users impose externalities on each other, i.e., a given user \( j \)’s utility is affected by the capacity allocated to other users \( i \neq j \). For instance, there may be a positive externality in which user \( j \)’s utility increases as other users send traffic over the link in order to interact with user \( j \). On the other hand, one could also observe negative externalities, in which congestion from other users’ traffic diminishes a particular user’s utility, e.g., by increasing delay.

When solving for the supply function \( S(p) \), we assumed that the ISP chose an optimal capacity \( x^* \), given a price \( p \). The equilibrium solution occurs when supply equals demand at the same price \( p \). Yet one can in fact obtain the same solution using a slightly different route: suppose that the ISP, knowing users’ demand functions \( x^*_j(p) \), calculates its revenue as a function of price to be \( p \sum x^*_j(p) \) (the price, multiplied...
by the user demand as a function of price). The ISP can then choose both \( p \) and \( x \) so as to maximize its profit \( p \sum j x_j^*(p) - c(x) \), subject to the constraint that the link capacity be able to accommodate users' total demand \( \sum j x_j^* \), i.e., that \( x \geq \sum j x_j^* \). It is easy to see that (assuming the cost \( c(x) \) is increasing in the capacity \( x \)), at the optimum, \( x = \sum j x_j^* \). The ISP then chooses the optimal price \( p \) so as to maximize \( p \sum j x_j^*(p) - c\left( \sum j x_j^*(p) \right) \). One can show that the resulting optimal price, which we will call \( p^* \), is the same equilibrium price \( p^* \) obtained above: at \( p^* \), each user \( j \) demands \( x_j^*(p^*) \), and the ISP chooses its optimal capacity \( x^*(p^*) \). This is exactly the point at which the supply and demand curves intersect, i.e., \( p^* \).

The above reasoning, in which an ISP chooses a price to offer subject to users' behavior as a function of the price chosen, is a simple example of a *game* between users and ISPs. In such a game, several players interact with each other, and each player acts to maximize his or her own utility, which may be influenced by other players' decisions. For instance, in this scenario, users interact with the ISP by utilizing the access link in its network and paying some price. Their decisions on how much capacity to utilize (i.e., choosing \( x_j^* \)) are influenced by the ISP's choice of the price \( p \). This interpretation of the single-link example leads us to next consider some basic principles of game theory in relation to SDP.

### 6.2 Incentive Compatibility: Game-Theoretic Principles

To illustrate some of the basics of game theory, we again consider the single link example above. The user-ISP interaction in such a scenario is an example of a *Stackelberg game*, in which one player, the “leader,” makes a decision (e.g., the ISP sets a unit price \( p \) for link capacity) and the remaining players, or “followers,” then make their own decisions based on the leader’s actions. In this example, users choose their demands \( x_j^*(p) \), given the ISP’s price \( p \). Stackelberg games, which often arise in user-ISP interactions, may be solved using *backwards induction*: first, one computes the followers’ actions as a function of the leader’s decision (in our example, we compute the functions \( x_j^*(p) \)). The followers’ actions are sometimes called a *best response* to the leader. The leader then takes these actions into account and makes his or her own decision (given that users’ demands are \( x_j^*(p) \), the ISP chooses the optimal price \( p \)). This decision is then the best response to the followers.

The backwards induction process leads to a *subgame perfect equilibrium* in the Stackelberg game: at this equilibrium, each player is maximizing his or her own utility, and no player has an incentive to change his or her behavior. To formalize this definition, we will need to first explain the concept of a *Nash equilibrium*. Consider a general game with \( n \) users, each of whom can take an action, e.g., by choosing the value of a variable \( y_j \): \( j = 1, 2, \ldots, n \); and suppose that each user \( j \)'s utility \( V_j \) is a function of all of the \( y_j \) variables, i.e., \( V_j = V_j(y_1, y_2, \ldots, y_n) \). Then a set of actions \( z_1, \ldots, z_n \) is a Nash equilibrium if \( V_j(z_1, \ldots, z_j, \ldots, z_n) \geq V_j(z_1, \ldots, y_j, \ldots, z_n) \) for any \( y_j \neq z_j \). In other words, assuming that all the other players take actions \( z_i \), player \( j \)'s action \( z_j \) optimizes its utility \( V_j \).

We may generalize the concept of a Nash equilibrium to a Stackelberg game’s subgame-perfect equilibrium by considering *subgames* of the Stackelberg game. We do not give the general definition of a subgame here, but it may be understood by envisioning the Stackelberg game as a dynamic game with different levels defined by the time of decision: on the first level, users make their decisions, and on the second, ISPs make their decisions. A subgame encompasses a group of players who mutually interact, but do not directly interact with other players at their level. In our scenario, a subgame would be a combination of users and the ISP. A subgame-perfect equilibrium of the full Stackelberg game is then a set of actions that comprise a Nash equilibrium in each subgame of the full game. It can be shown that any equilibrium found from backwards induction is a subgame-perfect equilibrium; one can easily check that this is the case in our example scenario. Nash and subgame-perfect equilibria are considered stable in that once they have been achieved, no user has an incentive to change their behavior. (Unfortunately, one cannot in general guarantee that such an equilibrium will be achieved in the first place, and a game may have multiple Nash equilibria.)

Another type of game that often arises in SDP is that of competing service providers. For instance, we may have an *oligopoly* of a few companies who dominate the market for mobile data, e.g., AT&T and Verizon in the United States are the dominant market players. Each of these companies then competes for customers (i.e., market share) and revenue with the others. This competition defines their interactions, and each company can try to make strategic decisions that optimize its market share. Given a mathematical
model of the companies’ actions, one can then try to study the corresponding game, e.g., by computing possible Nash equilibria.

While certainly useful for explicit pricing problems like that considered above, game theory can also be applied to more general resource allocation problems. To illustrate these uses, we again consider the single link example, but we now suppose that the link’s capacity is fixed and that the ISP wishes to allocate this fixed amount of capacity $x$ among its $n$ users.

If users selfishly maximize their individual utilities (i.e., choose demands $x_j^*(p)$), then the ISP can set a virtual price $p$ to force an allocation in which $\sum_j x_j^*(p) = x$, i.e., all of the available capacity is utilized, and each user maximizes his or her utility. This price is not actually collected by the ISP, but serves as a signal through which the ISP can control users’ demands. However, such an allocation may be unfair: very price-sensitive users may be able to afford significantly less capacity than others. Since revenue is no longer involved, the ISP can afford to care about other objectives like fairness. Indeed, a vast literature exists on just such a problem; we will not go into fairness theory here, but we will present one approach inspired by game theory.

In the Stackelberg game discussed above, users did not cooperate: each user maximized only his or her own utility, subject to the ISP’s offered price. Yet if users do cooperate, they may reach a better decision. We can study this problem by first defining individual users’ utilities $U_j(y_j)$; given a capacity amount $y_j$, each user $j$ derives utility $U_j(y_j)$. For instance, users could jointly choose their demands $y_j$, subject to the capacity constraint $\sum_j y_j \leq x$, so as to maximize an overall utility function $U(U_1(y_1), \ldots, U_n(y_n))$.

Depending on the choice of $U$, of course, one would obtain different allocations $y_j^*$. We use $y_j^*$ to denote the $y_j$ that jointly maximize $U$. Nash proposed that the $y_j^*$ satisfy the following four axioms:

1. Invariant to affine transformations: For each user $j$, define the utility function $V_j(y_j) = \alpha_j U_j(y_j) + \beta_j$ for some constants $\alpha_j > 0$, $\beta_j$. Then the allocation $\{y_j^*\}$ maximizing $U(V_1(z_1), \ldots, V_n(z_n))$ satisfies $V_j(z_j^*) = \alpha_j U_j(y_j^*) + \beta_j$ for each user $j$, where the allocation $\{y_j^*\}$ maximizes $U(U_1(y_1), \ldots, U_n(y_n))$. An affine transformation of the utility functions $U_j$ does not change the utility received at the optimal allocation.

2. Pareto-optimality: An allocation $\{y_1^*, \ldots, y_n^*\}$ is Pareto-optimal if for any user $j$, any feasible allocation $\{z_1, \ldots, z_n\}$ with $U_j(z_j) > U_j(y_j^*)$ satisfies $U_i(z_i) < U_i(y_i^*)$ for some user $i$. In other words, no user can be made better off without making another worse off.

3. Independence of irrelevant alternatives: Suppose that $U(U_1(y_1), \ldots, U_n(y_n)) > U(U_1(z_1), \ldots, U_n(z_n))$ for two feasible allocations $\{y_j\}$ and $\{z_j\}$. Then if the problem constraints are relaxed to allow new feasible allocations, we still have $U(U_1(y_1), \ldots, U_n(y_n)) > U(U_1(z_1), \ldots, U_n(z_n))$.

4. Symmetry: Suppose that $\{y_1, \ldots, y_n\}$ and $\{z_1, \ldots, z_n\}$ are feasible capacity allocations with $U_{j_1}(y_{j_1}) = U_{j_2}(z_{j_2})$ for some users $j_1$ and $j_2$. Then $U(U_{j_1}(y_{j_1}), \ldots, U_{j_2}(y_{j_2})) = U(U_{j_1}(y_{j_1}), \ldots, U_{j_2}(z_{j_2}))$ for all $j \neq j_1, j_2$. Then $U(U_1(y_1), \ldots, U_n(y_n)) = U(z_1, \ldots, z_n)$.

An allocation satisfying these four axioms is said to be a Nash bargaining solution. One can show that if $U$ is taken to be $\prod_j U_j(y_j)$, then the resulting $y_j^*$ is a Nash bargaining solution. Taking the logarithm, we see that this is equivalent to maximizing $\sum_j \log(U_j(y_j))$. In other words, users choose their demands to maximize the sum of the logarithms of their utilities $U_j$. Since the logarithm is sub-linear for large $U_j(y_j)$, the optimal allocation $\{y_j^*\}$ will penalize large values of $U_j$ relative to smaller ones, yielding a “more equal” allocation $U_j(y_j^*)$ than simply maximizing the sum of utilities $\sum_j U_j(y_j)$.

### 6.3 Real-Time Dynamic Pricing

So far, we have focused on pricing and bandwidth allocation of a single access link. However, in reality an ISP’s network does not consist of single bandwidth links: it is, in fact, a network, with multiple nodes and links between them. Data traffic between two nodes, e.g., between a user and a content provider, flows across a subset of the network links. Since different links may experience different types of congestion at
different times, an ISP may want to adjust the prices charged based on how much congestion is experienced by a particular user at a given time. It is this philosophy that lies behind dynamic pricing for congestion control.

To illustrate the basic concepts of congestion control, we consider a relatively simple example given in Kelly et al.’s seminal paper on the subject [67]. Consider a set of nodes, indexed by \( n = 1, 2, \ldots, N \), and a set of links indexed by \( l = 1, 2, \ldots, L \) that connect different nodes together. We suppose that each node \( n \) wishes to communicate with another node, and we use \( R_n \) to denote the subset of links traversed by node \( n \)’s traffic. \(^{10}\) The ISP’s goal is then to set a traffic rate \( x_n \) for each node \( n \), such that 1) the total amount of traffic on any link \( l \) lies below link \( l \)’s capacity \( c_l \), and 2) all users are as satisfied as possible. To accomplish this, each link can set a unit congestion price for traffic on the link. By prescribing the evolution of these prices in time, the ISP can satisfy its two objectives in a distributed manner.

We first define a routing matrix to summarize the routes taken by different nodes’ traffic over the network: let \( R \) be an \( L \times N \) matrix, and set \( R_{ln} = 1 \) if \( l \in R_n \), i.e., node \( n \)’s traffic travels over link \( l \), and \( R_{ln} = 0 \) otherwise. If we concatenate nodes’ traffic rates \( x_n \) into a vector \( \vec{x} \), we see that \( y_l = \vec{R} \vec{x} \) yields a vector of length \( L \). Each entry \( y_l \) of \( y_l \) equals the total volume of traffic on link \( l \). Letting \( \vec{c} \) be an \( L \times 1 \) vector of the capacities of each link \( l \), we then have the capacity constraint \( \vec{R} \vec{x} \leq \vec{c} \); the total amount of traffic on each link \( l \) cannot exceed the link’s capacity. \(^{11}\) This constraint ensures that the ISP’s first objective is satisfied.

The ISP’s second objective is that each user be “as satisfied as possible.” We define satisfaction by defining utility functions \( U_n(x_n) \) for each node \( n \); the ISP is then assumed to assign source rates \( x_n \) so as to maximize the total sum of utilities, \( \sum_n U_n(x_n) \), subject to the constraint \( \vec{R} \vec{x} \leq \vec{c} \). To solve this problem, we next make the assumption that each utility function \( U_n \) is concave. Such an assumption is consistent with the economic principle of diminishing marginal utility, i.e., that the extra utility received from an additional unit of bandwidth decreases as the user receives more and more bandwidth. Under this assumption, the ISP’s objective function \( \sum_n U_n(x_n) \) is concave. Since the constraints \( \vec{R} \vec{x} \leq \vec{c} \) are linear, the overall optimization problem is a convex optimization.

We now follow standard optimization theory and introduce a \( L \times 1 \) vector of Lagrange multipliers \( \vec{p} \), with each \( p_l \) corresponding to link \( l \)’s capacity constraint in the component-wise inequality \( \vec{R} \vec{x} \leq \vec{c} \). These multipliers \( \vec{p} \) will eventually become the congestion prices set by the links \( l \). The ISP’s optimization problem is then equivalent to solving

\[
\min_{\vec{p} \geq 0} \max_{\vec{x}} \left( \sum_{n=1}^{N} U_n(x_n) + \vec{p}^T (\vec{c} - \vec{R} \vec{x}) \right).
\]  

Solving (1) centrally can be done relatively easily; it is not hard to see that we have the solution

\[
x^*_n = U'_n^{-1} (q_n), \quad p^*_l = \begin{cases} 0 & \text{if } c_l - y_l > 0 \\ > 0 & \text{if } c_l - y_l = 0 \end{cases},
\]

where we define \( \vec{y} = \vec{R} \vec{x} \) and the \( n \)th entry of the \( N \times 1 \) vector \( \vec{q} = \vec{R}^T \vec{p} \) equals the sum of the congestion prices for the links traversed by node \( n \)’s traffic; \( q_n \) thus represents the total price paid by user \( n \). However, our goal is to develop a distributed solution, in which nodes adjust their rates \( x_n \), and links adjust their prices \( p_l \) so as to converge to the optimal solution. The ISP can drive these dynamics with the link prices—i.e., links change their prices \( p_l \), and nodes respond by adjusting their rates \( x_n \) according to the solution above.

An example of a price-driven algorithm is [91]

\[
p_l(t+1) = [p_l(t) - \gamma (y_l(t) - c_l)]^+, \quad x_n(t+1) = U_n'^{-1} (q_n(t+1)),
\]

where the argument \( t \) denotes the value of a variable at time \( t \), and we consider discretized times \( t = 1, 2, \ldots \). The constant \( \gamma > 0 \) is a stepsize parameter, and the + superscript \([\alpha]^+\) denotes the maximum of a quantity \( \alpha \) and 0. \(^{12}\) We note that each link \( l \) evolves its price \( p_l \) using only the traffic on that link \( y_l(t) \) and its

\(^{10}\)Choosing the optimal routes for each node \( n \) is a non-trivial problem in itself; for simplicity, we assume here that all of the routes \( R_n \) are fixed.

\(^{11}\)This inequality is to be interpreted component-wise, i.e., each component of the left-hand and right-hand side vectors should satisfy it.

\(^{12}\)This modification ensures that the prices are nonnegative.
capacity \( c_t \), both of which are known without communicating with other nodes or links. Similarly, each node \( n \) adjusts its rate \( r_n \) based only its price \( q_n \), a quantity that can be carried with node \( n \)'s traffic and is known without node \( n \) communicating with other nodes or links. One can show that these dynamics converge to the optimal prices and rates if the stepsize \( \gamma \) is sufficiently small. Moreover, as user utilities \( U_j \) or link capacities \( c_t \) change over time, following the dynamics (2) will repose the rates and prices to their new optimal values. Thus, real-time dynamic pricing can adapt to network congestion levels and keep ISP traffic from exceeding the network capacity. We explore some variations on this dynamic pricing model in the next section.

6.4 Dynamic Time-Dependent Pricing

One limitation of real-time dynamic pricing is that it requires users to respond to price changes by adjusting their demands in real time. Yet to consciously involve users in adapting their demand to price changes, a longer timescale is preferable. In this section, we again consider the case of a single access link for longer timescale time-dependent pricing. We divide one day into \( T \) time periods—e.g., \( T = 24 \) periods of one hour each—and suppose that the ISP can offer a different price at each time \( t = 1, 2, \ldots, T \). We suppose that the ISP has an existing link of capacity \( C \), and that it may accommodate additional demand at a marginal rate \( \gamma \). This additional cost may represent the increased cost of handling customer complaints due to congestion, or an additional investment cost necessary for We let \( X_t \), \( t = 1, 2, \ldots, T \), denote user demand at each time \( t \). Then the ISP’s cost of accommodating these demands is

\[
\sum_{t=1}^{T} \gamma \max (X_t - C, 0). \tag{3}
\]

Given that accommodating demand in the peak periods is more expensive than demand during less-congested periods in which \( X_t < C \), the ISP has an incentive to offer lower prices in less-congested periods, thus inducing users to shift some demand into those periods. This is the core idea of time-dependent pricing: by offering lower prices during less congested times, the ISP can even out its demand over the day, resulting in lower capacity costs. Our treatment here follows that in [13].

To formalize this argument, we next need to develop a mathematical model for users’ shifting of traffic in response to the prices offered. We let \( p_t \) denote the price offered by the ISP at each time \( t \). We suppose that the ISP can offer a maximum price that is normalized to 1, e.g., if the ISP currently offers a usage-based price of 1 without time-dependent pricing. We can then define the discount offered at each time \( t \) as \( d_t = 1 - p_t \). Users’ willingness to shift some traffic from one period \( t_1 \) to another period \( t_2 \) then depends on the additional discount offered in period \( t_2 \), i.e., \( d_{t_2} - d_{t_1} \). If \( d_{t_2} \gg d_{t_1} \), then the user will be able to save more money and thus will be more willing to shift his or her traffic. However, users’ willingness to shift their usage does not just depend on the discounts offered: it also depends on the time shifted \( t_2 - t_1 \). For instance, a user may be very willing to shift some traffic by half an hour, but much less willing to shift his or her usage by more than an hour, even with the same discounts.

The discounts offered and time shifted are of course not the only factors determining how willing users are to shift their data traffic: the type of traffic also matters. Software downloads, for instance, may be readily shifted by several hours, but users are often much less willing to delay urgent apps like email retrieval. For simplicity, in the following discussion we assume only one type of traffic, but our model can be easily extended to multiple traffic types; one simply adds up the amount of traffic shifted for each traffic class.\(^{13}\) We use \( w(d, t) \) to denote users’ probability (i.e., willingness) to shift their traffic by an amount of time \( t \), in exchange for an additional discount \( d \). We suppose that \( w \) is increasing in the discount \( d \) and decreasing in time \( t \), and that the value of \( w \) lies between 0 and 1, so that it may be interpreted as a probability. Many functions \( w \) meet these criteria, e.g., the functions

\[
w(d, t) = \frac{\max(d, 0)}{C(t + 1)^3},
\]

\(^{13}\)The amount of traffic corresponding to each traffic class can be treated as a model parameter; along with the other model parameters, it can be estimated from observed aggregate usage data.
where $C$ is a normalizing factor and $\beta \geq 0$ is a model parameter that controls the rate at which willingness to shift decreases with the time shifted $t$. For larger values of $\beta$, the willingness to shift decays faster with time, denoting increased impatience.

Given the functions $w$, the expected amount of traffic shifted from time $t_1$ to time $t_2$ is

$$w(d_{t_2} - d_{t_1}, |t_2 - t_1|_T),$$

where $|t_2 - t_1|_T$ denotes the number of periods between time $t_2$ and period $t_1$, modulo the number of periods $T$ (e.g., if $t_2 < t_1$, then $|t_2 - t_1|_T$ is the number of periods between period $t_1$ and period $t_2$ on the next day). Given an initial amount of traffic $Y_t$ in each period $t$, we can calculate that $Y_t w(d_{t_2} - d_{t_1}, |t_2 - t_1|_T)$ amount of traffic is shifted from time $t_1$ to time $t_2$. The ISP then loses $(d_{t_2} - d_{t_1}) Y_t w(d_{t_2} - d_{t_1}, |t_2 - t_1|_T)$ amount of revenue due to the traffic shifted from time $t_1$ to $t_2$. Some additional revenue is lost from the unshifted traffic in each period, for a total revenue loss of

$$\sum_{t=1}^{T} \left[ Y_t d_t + \sum_{s \neq t} Y_s (d_t - d_s) w(d_t - d_s, |t - s|_T) \right].$$

(4)

In addition to this revenue loss, offering discounts at some times may induce users to increase their overall usage during those time periods, in a “sales day effect.” The larger the discount offered $d_t$, the larger this increase will be. We can model this increase with a power law: given an initial amount of traffic $Y_t$ in period $t$, the amount of traffic after a discount $d_t$ is offered (neglecting any traffic shifted to other periods) is $Y_t (1 + d_t)^\alpha$ for some positive model parameter $\alpha$. We then have the desirable property that demand does not change if no discount is offered ($d_t = 0$); if $\alpha = 0$, the total demand does not depend on the discount at all. The ISP thus earns additional revenue

$$Y_t ((1 + d_t)^\alpha - 1) (1 - d_t)$$

(5)

due to this additional demand in period $t$. We can then add the ISP’s revenue loss from discounts offered (4), less the revenue gain (5) from additional traffic, to the ISP’s cost of capacity (3) to obtain the objective function

$$\sum_{t=1}^{T} \left[ Y_t d_t - Y_t ((1 + d_t)^\alpha - 1)(1 - d_t) + \sum_{s \neq t} Y_s (d_t - d_s) w(d_t - d_s, |t - s|_T) + \gamma \max (X_t - C, 0) \right],$$

where the total traffic at each time $t$ is

$$X_t = Y_t (1 + d_t)^\alpha + \sum_{s \neq t} Y_s w(d_t - d_s, |t - s|_T) - \sum_{s \neq t} Y_t w(d_s - d_t, |s - t|_T).$$

The first term represents the increase in traffic due to the discount, while the second is the amount of traffic deferred into period $t$, and the third term the amount of traffic deferred out of period $t$. The ISP then chooses the discounts $d_t$ (equivalently, the prices $p_t = 1 - d_t$) to minimize its objective function. Under certain reasonable conditions on $\alpha$, $\gamma$, and $w$, this is a convex optimization problem, which may be rapidly solved.

By solving this optimization problem, the ISP can obtain a set of prices for one day; it can then offer day-ahead pricing by running an optimization in each period that determines the optimal discount to offer one day from the current time. Moreover, the ISP can observe the traffic consumed in each period once these discounts are offered. Comparing this data to the traffic observed without discounts, the ISP can estimate the parameters of its user behavior models (i.e., $\alpha$ and $w$ above) from the observed changes in usage, given the prices offered. These estimates can be periodically updated and used to calculate new prices, completing a feedback loop (cf. Figure 4) between users and the ISP.
7 Engineering of SDP: A Trial Study

While pricing algorithms are essential to SDP research, in practice such algorithms must be able to function within an ISP network. In this section, we discuss the design and results of a trial of Section 6.4’s day-ahead time-dependent pricing (TDP) to highlight some ways in which implementability concerns can influence the development of pricing algorithms. We examine some important system and user interface design principles that were used in developing the prototype of this system, called TUBE, and finally present some trial results that illustrate how these elements can come together in practice. While some SDP trials have been conducted in the past, e.g., the Berkeley INDEX project in the 1990s [92], the design of this TUBE pilot trial illustrates the way new factors such as smartphones’ computing capabilities affect SDP’s feasibility.

7.1 Model Considerations

Most forms of dynamic pricing, in which prices must be determined in (near) real-time, require the prices to adapt based on users’ behavior. For instance, users’ perception of the prices offered may change over time, and demographically distinct user populations may react differently to the same set of prices (e.g., teenagers versus businessmen). Offering dynamic pricing thus requires that the ISP first estimate its users’ behavior and then use this to inform its choice of prices. In the case of time-dependent pricing, such estimates are particularly important. The basic philosophy of TDP is that by offering lower prices at less congested times, an ISP incentivizes users to shift some of their usage from more expensive, congested times to less congested times. Users’ demand over the day is thus evened out, with peak usage decreasing; this decrease in peak usage then reduces ISPs’ need to over-provision capacity for their peak demand. While lower prices would effectively encourage users to shift their demand, thus reducing costs, ISPs would also lose a large amount of revenue if the prices were too low. Moreover, users might shift their usage too much, and end up creating a new peak period during the discounted times.

In practice, these estimates of user behavior must take into account the available information that the ISP can collect from its users. For instance, TUBE’s TDP algorithms, discussed in Section 6.4, use only aggregate usage data, that is, the total usage volume on the network at different times, in order to estimate user behavior and calculate the prices. This approach has the following benefits:

- **Scalability:** Since only aggregate usage is recorded and used in the algorithms [13], we can scale up the user behavior and price computations to multiple users and multiple applications. The algorithm complexity does not increase with the number of users contributing to the aggregate usage totals.

- **User privacy:** The amount of traffic that an individual consumes for different applications can be sensitive information (e.g., unusually large amounts of streaming video might reveal a movie buff). The TUBE algorithm does not consider application-specific usage, so the ISP need not receive or record such sensitive information.

- **Utility function estimation:** Utility function estimation is usually a hard problem. When temporal considerations are involved, it can potentially become even more complicated, as the utility of consuming data at any given time depends on the prices offered at all times of the day.

- **Empirical observations:** Instead of using utility functions, we can model users’ willingness to shift their demand from one period to another, depending on the time elapsed between these periods and the price difference. Such usage shifts can be directly observed by comparing the amount used at different times and prices, and the model can then adapt as these observed shifts change over time.

By following these principles, we develop a scalable price calculation and user behavior estimation algorithm (see Section 6.4 and [13] for details) that can be feasibly deployed in a real system.

7.2 System Design

A core feature of SDP, and time-dependent pricing in particular, is that it involves both end users and ISPs. Thus, the system design must have components both on ISP servers and on user devices. Figure 7 shows this division of functionality and the requisite communication channels between the user device and ISP server. In order to make the system practical, we follow three basic principles:
Functionality separation: Users and ISPs have different roles in an SDP system: while users respond to the prices offered, an ISP must set the prices. TUBE utilizes individual user devices to facilitate not only displaying prices to users, but also helping them respond to the prices offered via an autopilot mode that automatically schedules apps to lower price periods. Since such computations need not involve the ISP, this functionality is located on users’ devices.

A feedback loop: In order to successfully adapt prices to user behavior, the ISP needs to monitor usage in its network. Thus, users must periodically send their usage to the ISP server. Similarly, the ISP must periodically update the prices displayed on users’ devices as new prices are calculated. This mutual communication forms a feedback loop.

An open API: An ISP’s users may have many different devices with different operating systems—for instance, iOS, Android, and Windows phones and tablets. Each of these devices must therefore communicate with the ISP server. To ensure consistency across different device types, TUBE offers an open API for transmission of usage and prices between the ISP and users.

7.3 User Interfaces

SDP depends not just on the pricing algorithms and system design, but ultimately on whether users respond to the prices offered. Thus, careful user interface design is necessary to ensure that users understand the prices being offered and to encourage them to respond accordingly. In some cases, interface design goes beyond displaying prices; users’ devices can automatically adjust data usage based on the prices offered and user preferences. TUBE’s user interface components can be grouped into three different categories:

Information displays: Since TUBE offers day-ahead TDP, the prices for the next day should be displayed to users. But users may also find it helpful to track their spending by viewing how much usage they have consumed in the past. TUBE thus shows users both the price and usage for several past hours, so that users can understand how they usually respond to the prices offered and how this affects their spending on data. TUBE also shows the amount used for the five apps with the highest data usage, so that users can see which applications consume more data. Figure 8abc shows some sample screenshots of these features.

Out-of-app indicators: Most users checking a mobile application too onerous for keeping track of current or future prices. A more convenient way to display the prices is to show a color-coded price indicator on the device home screen to (qualitatively) signal the current price to the user, without

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14Such usage monitoring also allows the ISP to calculate the amount spent by individual users.
Figure 8: Screenshots of user interfaces for time-dependent pricing. Users can (a) check the prices for next 24 hours, (b) view their price and usage history, (c) identify the top 5 apps by bandwidth usage, and (d) schedule their apps at different times of the day.

requiring any special action on the user’s part. Such color-coding can also be helpful for visualizing the future prices within the app, so that users can quickly decide whether to wait for lower prices.

- **Automation:** Many users prefer not to manually schedule different applications due to the complications involved in tracking future prices. TUBE thus offers an *autopilot mode* that takes into account users’ delay sensitivity for different applications and monthly budget to automatically schedule some apps to lower-price times. The autopilot mode utilizes users’ past spending to forecast how much the user will spend over a month. If this amount exceeds a user’s monthly budget, delay-tolerant apps can be scheduled to lower-price periods; as users’ spending further exceeds their budget, less delay-tolerant apps will be scheduled to lower-price periods. However, such algorithms need to be optimized so as to be as non-intrusive as possible; in user interviews after the TUBE trial, many trial participants expressed concern over an automated algorithm controlling their data usage [30]. One way to accommodate these concerns is to allow users to override the autopilot scheduling and to configure algorithm parameters, e.g., changing the delay tolerances of different apps (Figure 8d).

7.4 Trial Results

Recently, the authors of the present work developed a prototype of the above pricing algorithms, system components, and user interfaces and trial-ed it with 50 end users [13]. We here present some results from this TUBE trial, which illustrate both the importance of user interface design and the effectiveness of optimized TDP.

An initial phase of the TUBE trial offered alternating high (10% discount) and low (40% discount) time-dependent prices in differnt hours. After two weeks of following the high-low-low price pattern, the prices changed, repeating the pattern of a 9% discount at midnight, followed by 28%, 30%, 28%, 9%, and 30% discounts in subsequent hours. The home screen price indicator was green for discounts over 30%, orange for 10–29% discounts, and red for discounts below 10%.

Usage in different hours with these pricing patterns can be compared to assess the effect of the indicator color and numerical discount: hours deemed as Type 1 periods offered a 10% discount in the first stage of the experiment and 28% discount in the second stage; the indicator remained orange despite this increase in the discount. Type 2 periods offered a 10% (orange) discount in the first stage and 30% (green) discount in the second stage, while Type 3 periods offered a 10% discount in the first and 9% discount in the second stage of the experiment (the indicator is orange in both periods). Table 1 summarizes the combinations of discounts and colors used in the two stages that characterize each type of period.
Table 1: Period types in the color experiment.

<table>
<thead>
<tr>
<th>Type</th>
<th>Periods</th>
<th>First Stage Color</th>
<th>First Stage Disc.</th>
<th>Second Stage Color</th>
<th>Second Stage Disc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2, 8, 14, 20</td>
<td>Orange</td>
<td>10%</td>
<td>Orange</td>
<td>28%</td>
</tr>
<tr>
<td>2</td>
<td>3, 6, . . . , 24</td>
<td>Orange</td>
<td>10%</td>
<td>Green</td>
<td>30%</td>
</tr>
<tr>
<td>3</td>
<td>5, 11, 17, 23</td>
<td>Orange</td>
<td>10%</td>
<td>Orange</td>
<td>9%</td>
</tr>
</tbody>
</table>

Figure 9: Average percent changes in usage for the period types in Table 1. Users’ usage behavior is (a) not affected by the prices when only the numerical discounts, but not the indicator color changes. When (b) both the color and numerical discount change, users increase their usage behavior more in low-price periods.

To analyze the trial results, the percentage changes in usage for each type of period were computed, relative to usage without time-dependent prices. These changes showed that users responded more to changes in the price indicator color than changes in the numeric value of the TDP discounts. In post-trial interviews, nearly all of the trial participants indicated that they relied on the price indicator colors to know the current prices, rather than opening the TUBE app.

Figure 9 compares the usage changes observed in different period types. Each data point represents one user’s average change in each period type, with the size of the data point indicating the volume of usage in the second stage of the experiment. The reference line represents equal changes in both period types considered. Figure 9a shows the average change in usage for each user in Type 1 periods versus Type 3 periods. For both period types, the color did not change, but the discount in Type 1 periods increased significantly. Thus, if users had reacted to the numerical prices, usage should increase in Type 1 and decrease in Type 3 periods: users’ data points should lie above the reference line. Figure 9a shows that this is the case with only half of the users. Since the indicator color did not change, users were mostly agnostic to the numerical values of the discounts. Figure 9b plots the average change in usage in Type 2 versus Type 1 periods. The discounts in both periods increased by comparable amounts, but the indicator color changed from orange to green only in Type 2 periods. Most users’ data points lie above the reference line, indicating that usage increased more (or decreased less) in Type 2 as compared to Type 1 periods. Thus, users responded to the indicator color despite the comparable numerical discounts. In fact, 80% of our participants admitted to this behavior when asked in post-trial interviews whether they paid attention to the indicator color, numerical discounts, or both.

The final stages of the trial offered optimized time-dependent prices, with initial user behavior estimates based on the usage observed in previous stages of the trial with non-optimized prices. To measure the reduction in peak traffic was measured by the peak-to-average ratio (PAR), i.e., the ratio of usage in the peak period to average per-period usage, for each day. Comparing the PARs from before and after optimized TDP reveals that optimized time-dependent prices reduce the peak-to-average ratio from usage before time-dependent prices were offered (time-independent pricing, or TIP). Moreover, overall usage significantly increased after TDP was introduced, partially because people used more in the discounted valley periods.

Figure 10a shows the distribution of daily PARs both before and after TDP was introduced. The maximum PAR decreases by 30% with TDP, and approximately 20% of the PARs before TDP are larger.
than the maximum PAR with TDP. Thus, TDP significantly reduced the peak-to-average ratio, flattening demand over the day. Moreover, this decrease in PAR is not due to a net loss of traffic. Figure 10b shows the average per-user daily usage observed before and after TDP. The overall volume of usage after TDP is greater than that before TDP; in fact, across all users, the average change in usage from TIP to TDP is a 130% increase. Part of this increase may be due to the time of year—TIP usage was measured from July to September, and the TDP usage in January. TDP, however, is likely a major factor: the discounts during off-peak periods allowed users to consume more data while still spending less money and decreasing the PAR. In fact, in post-trial interviews 30% of the trial participants admitted to consciously using more data in the heavily discounted periods, with one explicitly comparing the situation to shopping at a clothing sale in department stores.

8 20 Open Questions and Future Directions

Current trends and future directions in smart pricing practices aim to make proposed pricing plans economically viable. For instance, substantial research has been done on day-ahead pricing, including the development of carefully designed user interfaces to display price and usage data. Examples of such interfaces are shown in Figure 8. Incorporating human factors into the engineering and design phase along with economic models can provide a holistic approach in solving the challenges of network congestion.

In addition to the pricing plans proposed above, new pricing plans have recently been proposed that have been rarely studied in the academic literature. Some promising directions include the following:

Shared data plans: AT&T and Verizon in the United States recently introduced shared data plans, in which several devices share a common data cap. While some studies of shared data plans have been made [93], the effects of such plans on user behavior, and how such a data cap can be shared fairly and efficiently among users, remain to be studied in detail.

Fair throttling: Instead of merely charging users more over a certain cap, ISPs may forcibly limit usage by throttling users to a limited bandwidth rate. However, researchers have still not thoroughly examined how these bandwidth limits should be set, how they should vary over time, and what their implications are in terms of fairness across different users.

Heterogeneous networks: Many ISPs are turning to supplementary networks such as WiFi and femtocells to offload traffic from congested cellular networks. While access to such networks is often free, in the future they may wish to implement more systematic access pricing to influence the adoption of such technologies and distribution of the user population across complementary networks like WiFi and 3G.
Sponsored content: A major question in pricing is about “whom to charge” for delivering traffic? In a two-sided pricing model (like in the credit card business) of the Internet, the price of connectivity is shared between content providers (CPs) and end users (EUs). ISPs are just the middle man (or platform) proving the connectivity between CPs and EUs. A clearing house of data traffic exchange market will be a major extension of the existing 1-800 model of phone-call services in the USA, which charges the callee rather than the caller. The tradeoffs in the resulting economic benefit between CPs and EUs remains to be quantified. Intuitively, end-users’ access prices are subsidized by third party sponsors (e.g., advertisers, content providers etc.) and the ISPs have an additional source of revenue. Perhaps more surprisingly, content providers may also stand to gain from two-sided pricing if subsidizing connectivity to end-users translates into a net revenue gain through a larger amount of consumption. However, the gain to content providers depends on the extent to which content-provider payment translates into end-users’ subsidy, and on the demand elasticities of the consumers. The precise gains to the three entities will therefore depend on their respective bargaining powers stemming from their contributions and price sensitivities.

Another special case of sponsored content include zero-rating and 1-800 reverse billing policies for data traffic. Under zero-rating, an ISP makes certain types of application traffic available to the users for free. This kind of policy, although contentious from a net neutrality viewpoint, is a major step in app-based pricing and has been practiced in some parts of Europe (e.g., Mobistar introduced a ‘zero-rated’ plan for Facebook, Twitter, and Netlog). Understanding the impact of such pricing plans on the network ecosystem and its neutrality are important active research directions in the area of network economics.

8.1 Static Pricing

Usage-based static pricing has traditionally been offered by ISPs around the world, and is in some sense the simplest and least controversial form of SDP. Yet even simple caps on monthly usage require a means to communicate those caps to users and, on the ISP side, accounting infrastructure to keep track of users’ remaining quotas. Pricing plans like token bucket pricing or negotiated contracts require even more interaction with end users, leading to questions that include:

1. How to enable users use their quota efficiently and keep track of a monthly usage quota?

2. If users choose different QoS levels or times to receive better QoS, e.g., in Paris metro or token bucket pricing, how can they do so without much technical knowledge of what “QoS” means? How can the ISP’s infrastructure keep track of users’ choices and offer the appropriate QoS?

3. Without such technical knowledge, how can users negotiate contracts (e.g., cumulus pricing) with ISPs? How can ISPs enforce these contracts?

4. If the ISP offered some form of personalized (e.g., app-based) pricing, how would it measure the usage of different applications for each user? Where in the network should such measurements take place (i.e., client devices or the network core)? From a regulatory perspective, does this violate privacy or network neutrality concerns?

5. How will users share the monthly data quotas imposed by shared data plans among different devices?

8.2 Dynamic Pricing

While static pricing offers some challenges in communicating between ISPs and end users, dynamic pricing introduces even more complications as the user must be informed of changes in price. Deployment questions unique to dynamic pricing include:

6. How often should the prices change? Should they change with the network congestion, or should they change only after a fixed time interval (e.g., one hour)?
7. Should users be told the prices in advance? Will they accept or respond to prices that change in real time?

8. The answer to the previous questions can be more broadly phrased as follows—how can users be appropriately informed of the changing prices (e.g., with an app on their mobile devices)? What kind of design is optimal for such an app? Going further, what mechanisms can be developed to help users adjust their behavior in response to the prices?

9. In the context of mobile data, network bottlenecks are generally highly location-dependent. Should the prices vary by location as well as time? How will this affect users who move from one location to another?

10. How can the prices be computed efficiently? Should this computation be done online or offline? What usage monitoring must take place, and how real time does it need to be?

11. In addition to efficient usage monitoring, how can the ISP anticipate user reactions to the prices so as to set the "optimal" prices? How can these change over time? Does the measurement process adequately protect user privacy?

12. Should dynamic pricing be coupled to QoS? If so, how?

8.3 Sponsored Content

Sponsored content pricing, in which content providers and advertisers subsidize users' spending on data, has not been widely deployed, partially due to the network neutrality implications of content provider subsidies. As a relatively new type of pricing, many questions remain to be answered:

13. What is the preferred mode of “sponsoring” in sponsored content/access, should it be based on increasing data cap, monetary discounts, or improved speed (e.g., less throttling)?

14. Will content providers sponsor content on a per-transaction basis? If so, how should these transactions be metered, and how much should they charge?

15. How can ISPs measure the cost of each transaction and develop accounting systems to keep track of content providers' sponsorship?

16. Does the idea of “sponsored content” violate network neutrality? Or can it be structured in a net-neutral way, e.g., sponsoring some data usage but not specifying the application?

8.4 Fair Throttling and Heterogeneous Networks

Other solutions to network congestion that do not explicitly use SDP include fair throttling and deployment of heterogeneous networks to offload traffic. Fair throttling has not been widely deployed in practice—while many ISPs do throttle users that exceed a certain usage cap, such measures are fairly crude and do not take into account users' full profiles. More sophisticated throttling, e.g., Comcast’s throttling of Netflix traffic in 2007, has been controversial. In contrast, many ISPs have begun offering WiFi hotspots, but it remains unclear how effective they are in relieving congestion on mobile networks. Thus, interesting theoretical and implementation questions remain for both these types of pricing, including the following:

17. What criteria should the ISP consider when performing “fair” throttling? Does measuring these criteria violate user privacy or network neutrality (e.g., throttling based on the usage of specific application types)?

18. Should users be directly involved in prioritizing different types of traffic in “fair throttling”? How can their preferences be incorporated into the throttling algorithm without the act of declaring such preferences becoming onerous to the user?
19. How much traffic can be offloaded to other heterogeneous networks (e.g., 4G traffic to WiFi)? How cost effective is deploying such networks as a solution to network congestion? How to estimate the monetary and spectral benefits achieved through such traffic offloading or demand shifting?

20. If ISPs were to charge for bundled access to supplementary networks like WiFi hotspots, how would such pricing plans affect users’ adoption and the overall network congestion?

These 20 questions are only some of the key questions that arise in deploying SDP and can help researchers identify interesting topics for exploration. In the coming years, as the Internet evolves further, answering these questions and others that emerge will help determine how we access (and pay for) the Internet in the highly connected, data-driven world.

9 Exercises

1. Nash Bargaining

Consider a single access link and suppose that its bandwidth capacity $C$ is shared by $n$ users. Let $x_i$ denote the amount of bandwidth received by each user $i = 1, 2, \ldots, n$, and suppose for simplicity that each user receives utility $x_i$ from $x_i$ amount of bandwidth. Suppose that the ISP allocates bandwidth to users so as to maximize

$$\prod_{i=1}^{n} x_i \quad \text{s.t.} \quad \sum_{i=1}^{n} x_i \leq C. \quad (6)$$

Show that the resulting allocation $\{x_i^*\}$ satisfies the four Nash bargaining axioms presented in Section 6.2.

2. Time-of-Day Smart Grid Pricing

Smart grid electricity providers often set time-dependent prices for energy usage. This problem considers a simplified example with two periods, the day-time and the night-time. The provider can set different prices for the two periods, and wishes to shift some night time usage to the day time. The energy provider always offers the full price during the night, and offers a reward of $\frac{p}{kWh}$ during the day.

Suppose that with uniform (not time-dependent) prices, customers vacuum at night, using 0.2 kWh, and also watch TV, using 0.5 kWh, and do laundry, using 2 kWh. During the day, customers use 1 kWh. The probability of users shifting vacuum usage from the night to the day is

$$1 - \exp\left(-\frac{p}{p_V}\right), \quad (7)$$

where $p_V = 2$, and the probability of shifting laundry to the daytime is

$$1 - \exp\left(-\frac{p}{p_L}\right), \quad (8)$$

where $p_L = 3$. Users never shift their TV watching from the night to the day.

Suppose that the provider has a capacity of 2 kWh during the night and 1.5 kWh during the day. The marginal cost of exceeding this capacity is $1/kWh$. Assume that energy costs nothing to produce until the capacity is exceeded.

(a) Compute the expected amount vacuum and laundry energy usage (in kWh) that is shifted from the night to the day, as a function of $p$.

(b) Find (to the nearest cent) the reward $p$ which maximizes the energy provider’s profit.

(c) Suppose that if vacuum or laundry usage is shifted from the night to the day, it is shifted by 12 hours. Compute the expected time shifted of vacuum and laundry using $p = p^*$, the optimal reward found above.
3. Paris Metro Pricing

Consider a metro system where two kinds of services are provided: Service class 1 and service class 2. Let \( p_1, p_2 \) be the one-off fees charged per user when accessing service classes 1 and 2 respectively. Suppose each user is characterized by a valuation parameter \( \theta \in [0,1] \) such that its utility of using service class \( i \) is

\[
U_\theta(i) = (V - \theta K(Q_i, C_i)) - p_i,
\]

where \( V \) is the maximum utility of accessing the service, \( K(Q_i, C_i) \) measures the amount of congestion of service class \( i \), given \( Q_i \geq 0 \) as the proportion of users accessing service class \( i \) (with \( \sum_i Q_i = 1 \)), and \( C_i \geq 0 \) is the proportion of capacity allocated to service class \( i \) (with \( \sum_i C_i = 1 \)).

At the equilibrium, i.e., no user switches from his selection, \( U_\theta(i) \) is merely a linear function of \( \theta \). Suppose the equilibrium is illustrated as in Figure 11.

Let \( \theta_1 \) be the \( \theta \) of the user who is indifferent to joining the first service class or opting out of all the services, let \( \theta_2 \) be that of the user who is indifferent to joining the first service class or the second service class, and let \( F(\theta) \) be the cumulative distribution function of \( \theta \).

(a) Show that

\[
Q_1 = F(\theta_1) - F(\theta_2), \\
Q_2 = F(\theta_2), \\
V - p_1 = \theta_1 K(Q_1, C_1), \\
p_1 - p_2 = \theta_2 (K(Q_2, C_2) - K(Q_1, C_1)).
\]

(b) Assume that \( \theta \) is uniformly distributed, i.e., \( F(\theta) = \theta \), and that the congestion function is defined as

\[
K(Q, C) = \frac{Q}{C}.
\]

Solve for \( \theta_1 \) and \( \theta_2 \) as functions of \( V, p_1, \) and \( p_2 \).
(Hint: Try \( \frac{p_1 - p_2}{V - p_1} \).


4. Two-Sided Pricing

Suppose an ISP charges a content provider (CP) the usage price \( h_{CP} \) and flat price \( g_{CP} \) and charges end user (EU) the usage price \( h_{EU} \) and flat price \( g_{EU} \). For simplicity, we assume zero flat prices \( (g_{CP} = g_{EU} = 0) \). Let \( \mu \) be the unit cost of provisioning capacity. The demand functions of the CP and EU, denoted as \( D_{CP} \) and \( D_{EU} \) respectively, are given as follows:

\[
D_{EU}(h_{EU}) = \begin{cases} 
    x_{EU,max}(1 - \frac{h_{EU}}{h_{EU,max}}) & , \text{if } 0 \leq h_{EU} \leq h_{EU,max} \\
    0 & , \text{if } h_{EU} > h_{EU,max}
\end{cases}
\]

\[
D_{CP}(h_{CP}) = \begin{cases} 
    x_{CP,max}(1 - \frac{h_{CP}}{h_{CP,max}}) & , \text{if } 0 \leq h_{CP} \leq h_{CP,max} \\
    0 & , \text{if } h_{CP} > h_{CP,max}
\end{cases}
\]

The parameters are specified as follows:

\[
\begin{align*}
    h_{CP,max} &= 2.0\mu, \\
    h_{EU,max} &= 1.5\mu, \\
    x_{CP,max} &= 1.0, \\
    x_{EU,max} &= 2.0.
\end{align*}
\]

The ISP maximizes its profit by solving the following maximization problem

\[
\begin{align*}
\text{maximize} & \quad (h_{CP} + h_{EU} - \mu)x \\
\text{subject to} & \quad x \leq \min\{D_{CP}(h_{CP}), D_{EU}(h_{EU})\} \\
\text{variables} & \quad x \geq 0, h_{CP} \geq 0, h_{EU} \geq 0.
\end{align*}
\] (12)

Find the optimal \( x^*, h_{CP}^*, h_{EU}^* \).

5. Monitoring Mobile Data Usage

Many commercial mobile applications have been developed to help users keep track of their mobile data usage. Some examples include 3GWatchdog Pro (Android), DataWiz (iOS and Android), MyDataManager (Android), and Onavo Count (Android and iOS).

(a) Visit two or three app websites and list their features (e.g., showing usage by application, forecasting future usage, alerts when you approach your monthly data quota). Are there any significant differences between the apps? Can you identify any consistent differences between iOS and Android apps?

(b) What visual elements are used in the app designs? For instance, do the apps use bars or pie charts to represent usage? How are these displays different on different apps?

(c) Based on your answers to the above questions, try to design your own app for tracking mobile data usage. What screens would you implement? What features would you offer?
10 Supplementary Materials

As a part of the supplementary reading materials for the chapter, the students are encouraged to refer to the following materials:

- Slides on Time-dependent Usage-based pricing engineering (TUBE) and shared data pricing.
- Lecture notes, slides and homework questions on SDP from ELE 381 (http://scenic.princeton.edu/network20q/).
- Demo videos related to the DataMi project (http://scenic.princeton.edu/datami/) [96].
- Free iPhone and Android app for usage monitoring (DataWiz) (download links at http://scenic.princeton.edu/datawiz/) [26].
- Research papers, surveys, and white papers from SDP workshops (available at http://scenic.princeton.edu/SDP2012/program.html) [14].

References


**Author Biographies**

**Soumya Sen** received the B.E. (Hons.) in Electronics and Instrumentation Engineering from BITS-Pilani, India, in 2005, and both the M.S. and Ph.D. in Electrical and Systems Engineering from the University of Pennsylvania in 2008 and 2011, respectively, and did his postdoctoral research at the Princeton University. He is currently an Assistant Professor in the Department of Information & Decision Sciences at the Carlson School of Management of the University of Minnesota. He is a co-organizer of the Smart Data Pricing (SDP) Forum, which promotes industry-academic interaction on broadband pricing research. His research interests are in Internet economics, communication systems, social networks, and network security. He has published several research articles in these areas and his work on broadband pricing was a finalist at the 2011 Vodafone Wireless Innovation project. He won the Best Paper Award at IEEE INFOCOM 2012.

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Sangtae Ha is an Associate Research Scholar in the Department of Electrical Engineering at Princeton University. He led the establishment of the Princeton EDGE Lab and currently serves as its Associate Director. He received his Ph.D. in Computer Science from North Carolina State University in 2009 and has been an active contributor to the Linux kernel. During his Ph.D. years, he participated in inventing CUBIC, a new TCP congestion control algorithm. Since 2006, CUBIC has been the default TCP algorithm for Linux and is currently being used by more than 40% of Internet servers around the world and by several tens of millions of Linux users for daily Internet communication. His research interests include pricing, greening, cloud storage, congestion control, peer-to-peer networking, and wireless networks.

Mung Chiang is the Arthur LeGrand Doty Professor of Electrical Engineering at Princeton University, and an affiliated faculty in Applied and Computational Mathematics, and in Computer Science. He received his B.S. (Hons.), M.S., and Ph.D. degrees from Stanford University in 1999, 2000, and 2003, respectively, and was an Assistant Professor 2003-2008, an Associate Professor 2008-2011, and a Professor 2011-2013 at Princeton University. His research on networking received the Alan T. Waterman Award (2013), IEEE Kiyo Tomiyasu Award (2012), a U.S. Presidential Early Career Award for Scientists and Engineers (2008), several young investigator awards, and a few paper awards including the IEEE INFOCOM Best Paper Award (2012). A recipient of the Technology Review TR35 Award (2007), his inventions have resulted in a few technology transfers and commercializations. In 2009, he founded the Princeton EDGE Lab, supported in part by an industry consortium, which aims at bridging the theory-practice divide in networking. He served as an IEEE Communications Society Distinguished Lecturer in 2012-2013, chaired the founding steering committee of the new IEEE Transactions on Network Science and Engineering, and co-chaired the 2012 US NITRD special workshop on complex engineered networks. He created a new undergraduate course: Networks: Friends, Money, and Bytes that lead to an open online offering and a flipped classroom at Princeton. The corresponding textbook: Networked Life: 20 Questions and Answers,” provided the Integrated and Individualized BookApp (IIB) format, and received the PROSE Award in Engineering and Technology (2013) from the Association of American Publishers. In 2013, he initiated the online learning platform, “3 Nights and Done.”