

CH. 16 OLIGOPOLY

- MULTIPLE FIRMS SELLING ESSENTIALLY THE SAME PRODUCT

- GOLF BALLS
- GASOLINE
- LIGHT BULBS

MONOPOLISTIC COMPETITION

- MULTIPLE FIRMS SELLING THEIR OWN BRAND IN COMPETITION w/ OTHER BRANDS

- AUTOMOBILE
- CEREAL
- BOOKS, MUSIC

PRISONER'S DILEMMA

BONNIE

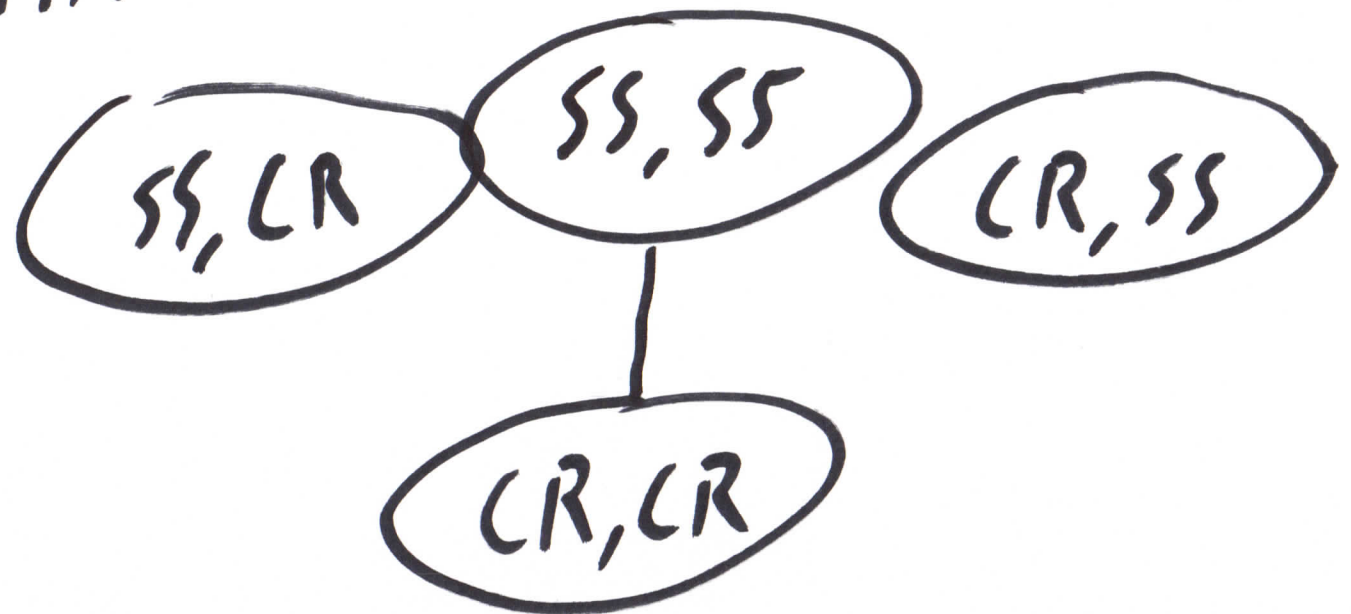
GAME THEORY

CLYDE

	CONFESS + RAT	STAY SILENT
CONFESS + RAT	<u>B = 8 YEARS</u> <u>C = 8 YEARS</u> <u>(N)</u>	B = 20 YEARS <u>C = 1 YEAR</u>
STAY SILENT	<u>B = 1 YEAR</u> C = 20 YEAR	B = 2 YEARS C = 2 YEARS

N = NASH EQUILIBRIUM

PARETO OPTIMALITY - OPTIMAL EQ. MAXIMIZES
WELFARE FOR ALL PARTICIPANTS W/OUT
HARMING WELFARE OF ANY INDIVIDUAL
PARTICIPANT



DOMINANT STRATEGY: 1 BEST ACTION FOR
A PLAYER REGARDLESS OF OPPONENT'S ACTION

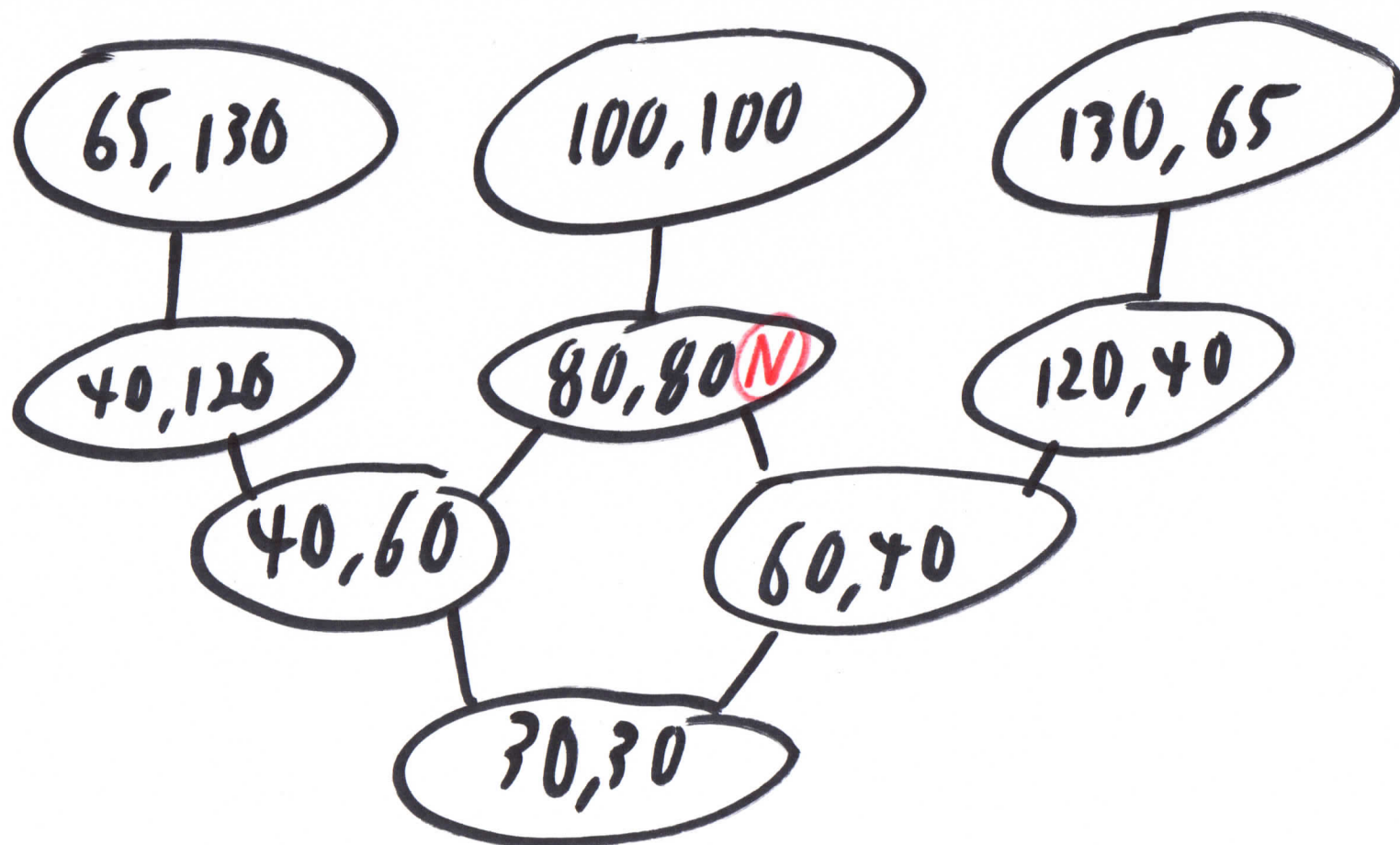
FILM

KODAK

FUJI

	Q=10	Q=20	Q=30
Q=10	K=100 F=100 Qm	<u>K=130</u> F=65	K=120 <u>F=40</u>
Q=20	K=65 <u>F=130</u>	<u>K=80</u> <u>F=80</u> (N)	K=60 <u>F=40</u>
Q=30	<u>K=40</u> F=120	<u>K=40</u> F=60	K=30 F=30 Qpc

Q	P
20	10
30	6.5
40	4
50	2
60	1



MATCHING PENNIES

YOU

	H	T
H	$M = +1$ $Y = -1$	$M = -1$ $Y = +1$
T	$M = -1$ $Y = +1$	$M = +1$ $Y = -1$

NO NASH
EQ.

ME

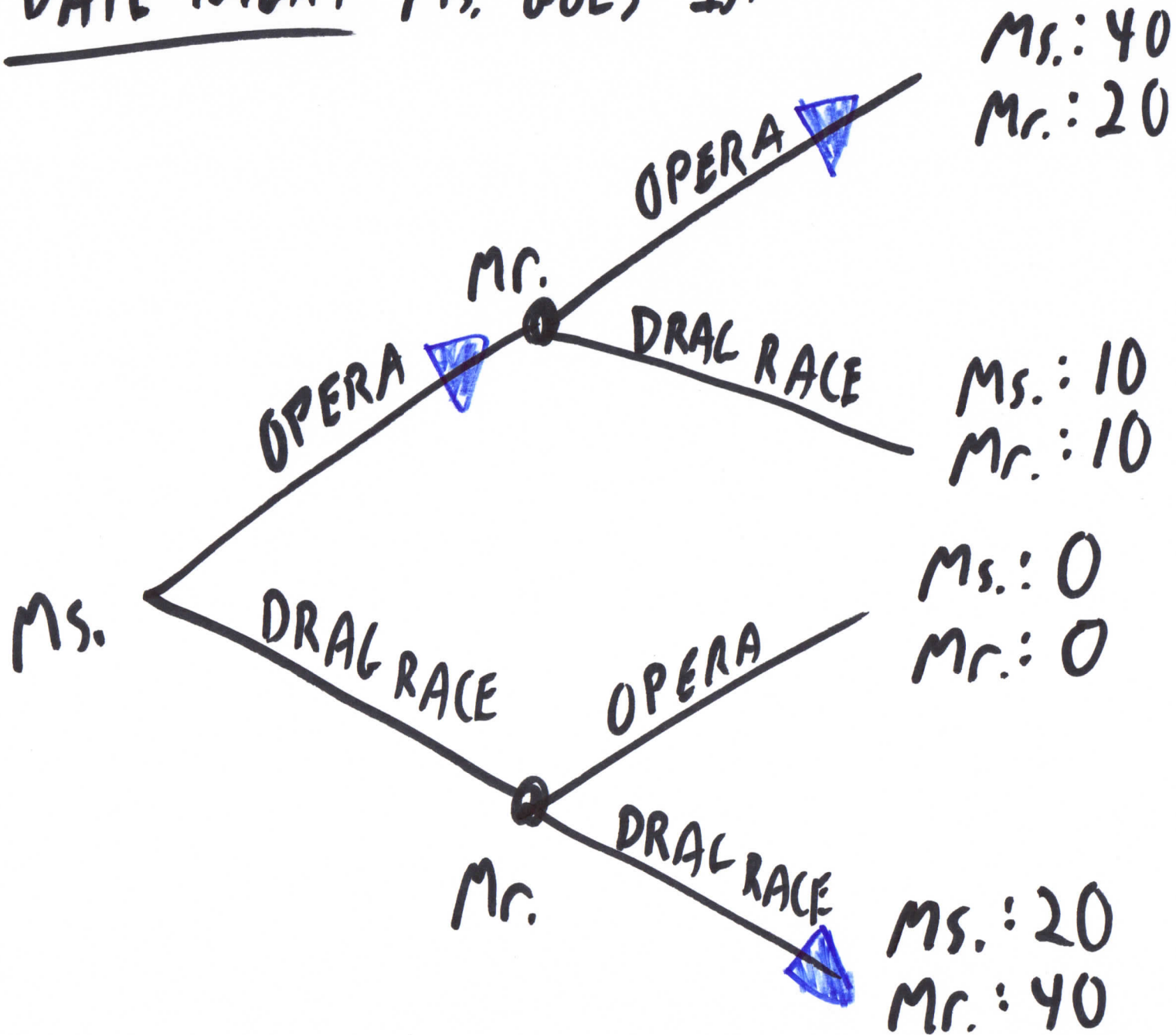
DATE NIGHT

Ms.

MR.

	OPERA	DRAL RACE
OPERA	$M_s = 40^*$ $M_r = 20^*$ (N)	$M_s = 100$ $M_r = 0$
DRAG RACE	$M_s = 10$ $M_r = 10$	$M_s = 20^*$ $M_r = 40^*$ (N)

DATE NIGHT Ms. GOES 1st



NSE

RECURSIVE
SOLUTION

PREDICT
LAST
ACTION
FIRST

WHY COOPERATE?

LIFE IS A REPEATED GAME...

- WHO'S ADVANTAGE

- FIRST ~~PL~~AYER ADVANTAGE

- OFTEN ILLEGAL IN
BUSINESS

TIT-FOR-TAT STRATEGY

OLIGOPOLY STRATEGIES

- RESALE PRICE MAINTENANCE

- PREDATORY PRICING

- TYING