Solutions

Each answer shows the steps, then the **result**.

2.1

- any two of: few firms, mutual interdependence, barriers to entry, differentiated or identical products

2.2

- a choice that is best for a firm no matter what its rival does

2.3

- each firm has an incentive to defect for a better individual payoff, so the cooperative outcome is not a stable equilibrium

3.1 B

3.2 B

3.3

(a)

- a dominant strategy (charge the low price)

(b)

- the Nash equilibrium

(c)

- a prisoner's dilemma