4 Oligopoly and game theory – Part 2 —Answers

Answers

Work through these after you have tried the questions yourself.

2.1 a market with a few large, interdependent firms, where each one's best action depends on the others.
2.2 a firm's best choice no matter what its rival does.
2.3 an outcome where no firm can do better by changing its own choice alone.
2.4 they reach both Low $(6, 6)$ (each firm's dominant strategy), which is worse than the $(10, 10)$ they would get by cooperating.
2.5 each firm has an incentive to cheat on any deal to grab more profit, so cooperation breaks down and they end up at the worse Nash equilibrium.