

EC 131 - Lecture 15

Boston College
Department of Economics

Inacio Guerberoff Lanari Bo

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Textbook readings: Chapter 17

1 Game Theory

- Game: economic situation in which the outcome obtained by one agent depends not only on its own actions but also other agents' actions
- Payoff matrix
- Strategies
- Dominant strategies
- Prisoner's Dilemma (coordination failure)
- Nash equilibrium: a combination of strategies where each player chooses the best strategy given that the strategies chosen by the other players

2 Oligopoly

- Production choices by two firms as a Prisoner's Dilemma
- Cartels and why it's hard to keep one stable