

The position that comes after everyone making assumptions about the others' behavior is called Nash Equilibrium. It is the result of each firm doing the best it can and adopting the least worst of all strategies with no collusion. In the diagram above the Nash Equilibrium would be last quadrant where both prisoners confess and each gets 20 years. If there is no collusion in the future, the position will not change. If there is collusion the best overall outcome would be the first quadrant where both do not confess and each gets 1 year.

Preview from Notesale.co.uk
Page 2 of 2