"Game Theory" Overview

- Oligopolies display strategic pricing behavior
  - Mutual interdependence
  - Collusion
  - Incentive to cheat
  - Prisoner's dilemma
    - To help oneself, both participants find themselves in a worse state because they do what is best for themselves and would have had a better outcome if they had cooperated with each other in the decision-making process
    - Instead if you take in your own interests and good of the group to work together in a competitive environment and then everyone gets their way
- Game Theory Overview
  - 2 competitors
  - 2 price strategies
  - each strategy has payoff matrix
  - greatest combined profit
  - independent actions stimulate a response

<u>Collusion</u> (illegalyl set prices with competitors)

- Cartel
  - Overt collusion – OPEC
  - Covert collusion – NFL case
- Joint-profit maximization

<u>Obstacle to Collusions</u>

- demand and cost differences
- number of firms
- cheating
- recession
- new entrants
- legal obstacles

<u>Oligopoly and Advertising</u>

- prevalent to compete with product development and advertising

Price Discrimination

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price discrimination: charging different buyers different prices

- prices aren't based on cost differences (consumers have different willingness to pay)
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