

Name & SID: _____

Date: _____

1. Cathy and Gina are caught cheating on their adjunct quizzes. They are placed in two separate rooms, and they are given the following choices: confess or not confess. Assume Cathy and Gina do not know each other very well (i.e. they will not collude). **Circle** the Nash equilibrium (result of this game when all players play their best strategies given what their competitors are doing).

		Cathy	
		Confess	Not Confess
Gina	Confess	Cathy: 8 years in Jail Gina: 8 years in Jail	Cathy: 10 years in Jail Gina: 0 years in Jail
	Not Confess	Cathy: 0 years in Jail Gina: 10 years in Jail	Cathy: 1 years in Jail Gina: 1 years in Jail

2. What is Gina's dominant strategy? Explain.
3. What is Cathy's dominant strategy? Explain.
4. What prevents Cathy and Gina from colluding?
5. Michael and Amy are the only two producers of widgets in the world. They are given the following choices: raise or lower prices on widgets. Assume this is a one-shot game. Assume there is no collusion. Assume no uncertainty. Circle the Nash equilibrium.

		Amy	
		Raise Prices	Lower Prices
Michael	Raise Prices	Amy: \$500 profits Michael: \$500 profits	Amy: \$600 profits Michael: \$400 profits
	Lower Prices	Amy: \$300 profits Michael: \$600 profits	Amy: \$400 profits Michael: \$300 profits

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6. What is Amy's dominant strategy? Explain.
7. What is Michael's dominant strategy? Explain.
8. Winnie and James are the only producers of *Ambrosia* which is a new secretly-formulated high-demand perfume for women and men. They are given the following choices: raise or lower production. Assume this is a one-shot game. Assume there is no collusion. Assume James thinks that **Winnie is out to put him out of business**. Risk and uncertainty are now introduced into the game. Circle the maxmin equilibrium.

		Winnie	
		Raise Production	Lower Production
James	Raise Production	Winnie: \$500 profits James: \$500 profits	Winnie: \$600 profits James: \$300 profits
	Lower Production	Winnie: \$300 profits James: Shut-down	Winnie: \$400 profits James: \$400 profits

9. What is Winnie's dominant strategy? Explain.
10. What is James dominant strategy? Explain.
11. What does James choose to do? Assume he **knows** Winnie's dominant strategy.