

1. Depict the following situation as both a normal form game and an extensive form game:

Two rival firms are thinking of launching a similar product at the same time. If both firms launch the product, then they will each make a profit of £40,000. If only one firm launches its product, then it can act as a monopolist and will make a profit of £100,000. If either firm decides not to launch the product that firm makes a loss of £50,000, due to costs already incurred in developing the product.

2. Solve the previous product launch game using the principle of strict dominance.

3. Interpret the following diagrams and discuss whether they represent valid extensive form games.

