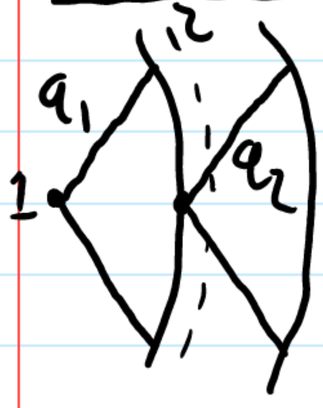
16.4 Stackelberg 4 - Unreasonable Equilibria

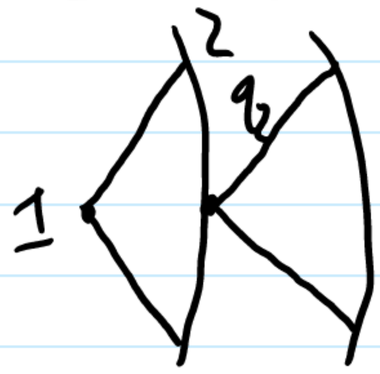
Saturday, October 31, 2020 1:04 PM

Cournot



u_1, u_2

Stackelberg



$P = 1 - q_1 - q_2$

$u_1 = (1 - q_1 - q_2 - c_1) q_1$

if $q_2 = (1 - c_1)$ then $u_1 = (-q_1) q_1 < 0$

$$s_2 = \begin{cases} q_2 = 1 - c_1 \text{ if } q_1 > 0 \\ q_2 = 1 - c_2/2 \text{ if } q_1 = 0 \end{cases}$$

$BR_1(s_2) = 0$

$BR_1(q_2) = 1 - c_1/2 - q_2 = 0 \rightarrow$ Non-credible Threat