**Microeconomics III, Ex. class 4, Session 2**

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| 10:15  10:20  10:30  10:35 | A-exercises: I’ll briefly go through the answers, however, I’ll ask you to contribute with some intuition.  However, stop me anytime if I move forward to quickly.  Ex. 1: In a simultaneous game: How many of you think the outcome where no one chooses the blonde is a NE? Did it remind you of any other game you have seen? I have highlighted the BR of each player.  Ex. 2: How many thinks there is exactly 1 NE? … 2 NE?  Ex. 3.b: **a)** Does the order of elimination matter for iterated elimination of *weakly* dominated strategies?  How many thinks there are 0 NE? … Exactly 1 NE? … 2 NE? … 3 NE?  **b)** On one hand **(B,a)** is a reasonable outcome if both players choose their strategy with a potential payoff, though both would end up getting 0.  On the other hand, there is **neither *envy*** **nor *altruism*** in this game, i.e. if Player 1 could credible commit to ***B***, Player 2 would be indifferent on whether to pick ***a***or ***b****.* | As it’s good practice for you – and helps me realize if I should explain something  Envy: Disutility from unequal outcome.  Top-Left, Bottom-Right  Capital *A* vs small *a.* |
| 10:45 | Ex. 4: Which NE did you find? Any other?  Ex. 5: For either player strategy B is strictly dominated by A, i.e. NE = {A, A} | What type of game is this? (Pr. Dilemma) |
| 11:00 | 15 min pause |  |
| 11:15 | Ex. 6: **a)** What quantity do either of the bakeries produce in equilibrium?  **b)** How to draw the BR functions? | **Bonus exercise**: Calculate the equilibrium under monopoly and the dif. in aggregate production and profit. |
| 12:00 | 15 min pause |  |
| 12:15 | Ex. 7: **a)** What would you write? **b)** How can the game be formalized – and what NE did you find?  **c)** What strategy is more likely? How does it compare to answer in **a)**? **d)** Communication?  **e)** What advice would you give Heidi if she could send a signal? | No incentive to deviate.  Equitable equilibria may be more likely. |
| 12:30 | Ex. 8: **a)** Which strategies exist? What are the payoffs?  **b)** How many NE exist? | Which type of game is this?  Another Game of Chicken. |
| 12:45 | For next time: At the end of the session next week, I’ll ask you for something that you like about the way we do these exercise classes and something that I can improve about it.  E.g. if I have too much text on my slides or talks too quickly? We’ve finished before time again today… | It can be anything, big or small.  Also feel free to interrupt or come to me anytime. |