**Microeconomics III, Session 5**

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| 10:15 (5) | Welcome: Today I’ll try a new approach where you can better work with the exercises at your own pace.  The internal evaluation is this week so you can use it to give feedback on how it works.  Outline: |  |
| 10:20 (0) | Ex. 1-3: *[skip]* I won’t talk about these, but have a look at the solutions yourself… |  |
| 10:20 (5) | PS5: Go to Absalon and find the course. Go to the “Files”-tab and “Class 4” to download:  “Problem Set 5 – Autumn 2019\_slides\_handout”  Then you can check your answers at your own pace.  After this class, I’ll post the complete slides on the front page of the course  (that is, including the intuition parts which we will still talk about during the class) | *Upload and show in browser.* |
| 10:25 (10)  10:35 (5) | Ex. 4: The Mutated Seabass (backwards induction)  **c)** What is the intuition for the outcome?  3rd stage: Org. A does only benefit from attacking if having acquired the weapon.  2nd stage: Org. B will only choose to attack if Org. A has acquired the weapon.  1st stage: Not acquiring the weapon is a credible signal that Org. A will not attack. | What is the intuition for the 3rd stage?  What is the intuition for the 2nd stage?  What is the intuition for the 1st stage? |
| 10:40 (15)  10:55 (5) | Ex. 5: Three player game (backwards induction)  **c) In the static game:** *A is strictly dominated by B, thus:* (A,C,E) with outcome (5,2,2) cannot be a solution. Player 2 and 3 will not play C and E as they expect player 1 to play B instead and get (6,0,1).  **In the dynamic game:** Player 1 can expect at higher payoff on the left side of the tree than on the right side, thus, commits to A, allowing Player 2 and 3 to play C and E. | **In the static game:** Why is (A,C,E) with outcome (5,2,2) not a solution?  **In the dynamic game:** Why does Player 1 not play B when we saw in the in the static game that it strictly dominated A? |
| 11:00 | 15 min pause |  |
| 11:15 (15)  11:30 (5) | Ex. 6: Stackelberg assignment (backwards induction)  **c)** P1: This is a case of last mover advantage; the payoff function means that P1 has an incentive to set his effort high, in order to motivate P2 to do the same.  P2: Gets most of the extra benefit, since he can optimize his own effort, without it affecting P1’s effort.  **d)** Since player 1s effort is cheaper for small values of effort, he could pay player 2 to increase P2s effort, whilst increasing both of their payoffs. | Why does Student 1 prefer the […]? |
| 11:35 (15)  11:50 (5) | Ex. 7: Dynamic game (proper subgames)  **c)** Compare to the set of SPNE and comment.  They rely on empty threats (Player 2 playing R' and Player 1 playing L''). | How is it, that the 2 first Pure Strategy NE are not Subgame Perfect NE? |
| 11:55 (5) | Internal Evaluation: Please go to your KU mail and find the one called “Internal Evaluation of classes”  Spend the last 5 minutes on completing the survey. | I would like to know, how you like today’s approach of having access to the slides and only discussing the intuition. |
| 12:00 | 15 min pause |  |
| 12:15 (15) | Ex. 8: |  |
| 12:30 (20) | Ex. 9: |  |