**Microeconomics III, Session 7**

|  |  |  |
| --- | --- | --- |
| 10:15 (5) | Welcome: It’s a long problem set, thus, we will wait doing ex. 7 till next week.  For ex. 9 the problem set refers to Lecture 8, but it is actually Lecture 6 (slides 50-68). | *Upload slides-handout to Files > Class 4* |
| 10:20 (5)  10:25 (10)  10:35 (0) | Preparation: Talk about exercises 1-3. You should be ready to give quick answers as a team.  Kahoot! Focus on giving the right answer, rather than being quick.  Ex. 1-3: *[skip]* If it was difficult, have a look at the solutions at home… | Explain “singleton” & “information set”  *Show slides-handout in browser.* |
| 10:35 (15) | Ex. 4: Credible punishment (twice-repeated game) |  |
| 10:50 (10) | Ex. 5: Trigger strategy (infinitely repeated game) |  |
| 11:00 | 15 min pause |  |
| 11:15 (10) | Ex. 5: *continued* |  |
| 11:25 (25)  11:55 (5) | Ex. 6: Tit-for-tat strategy (infinitely repeated game)  **d)** Could other deviations be better? What is required for a strategy to be part of a NE?  The final piece of the puzzle is to realize that all other plausible deviations are combinations of the two deviations we have already examined. Thus, for δ ≥ ½ no deviation can give a strictly higher payoff and ’tit-for-tat’ is best-response *on* the equilibrium path which is the requirement for being part of a NE. |  |
| 12:00 (0) | Ex. 7: Postponed to next week. |  |
| 12:00 | 15 min pause |  |
| 12:15 (20) | Ex. 8: Trigger strategy (infinitely repeated game) |  |
| 12:35 (10) | Ex. 9: Optimal punishment strategy (infinitely repeated game) |  |
| 12:25 (25) | Ex. 10: Is the punishment credible? (infinitely repeated game)  **4.** When he is in the 1st round of punishing Player 1:  Player 2 expects higher utility from playing according to QP (25) than from deviating (7), i.e. Player 2 has no incentive to deviate.  **5.** When he is in subsequent rounds of punishing Player 1:  From the 2nd round of punishing Player 1, Player 2 expects to earn 15 in every round, i.e. he has no incentive to deviate. |  |