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“Quality received by each consumer is lower than the socially optimal level, because of the potential for cannibalization from self-selection.”

* Potential cannibalization:

, then some consumer will choose a lower quality product expected to be chosen by other consumer type.

* So there is a penalty term, which makes the firm’s quality allocation not too high, leading to the degradation.

Subgame Perfect Nash Equilibrium (SPNE )

*“ A*[*strategy profile*](https://en.wikipedia.org/wiki/Strategy_(game_theory))*is a subgame perfect equilibrium if it represents a Nash equilibrium of every*[*subgame*](https://en.wikipedia.org/wiki/Subgame)*of the original game. Informally, this means that if (1) the players played any smaller game that consisted of only one part of the larger game and (2) their behavior represents a Nash equilibrium of that smaller game, then their behavior is a subgame perfect equilibrium of the larger game.”*

SPNE is always solved by backward induction. (like in a sequential game, what’s each player strategy?)

In ”only one firm has PPQ” case, player 1, i.e. first mover is the noPPQ firm, say L in the paper, and second player 2 is the R in the paper.

*“The principal–agent problem, in political science and economics, (also known as agency dilemma or theory of agency) occurs when one person or entity (the "agent") is able to make decisions on behalf of, or that impact, another person or entity: the "principal". [1] This dilemma exists in circumstances where the agent is motivated to act in his own best interests, which are contrary to those of the principal, and is an example of moral hazard.”*