

Probability of failure (risk),  $f$

$$f^N = \frac{3}{4}$$

A's best-response function,  $f = \frac{1}{2} + \frac{\delta}{2q}$   
Slope  $= \frac{1}{2q}$   $\longrightarrow$

$n$

P's isoprofit curve,  $\pi = \pi^N$   
Slope  $= \frac{1-f}{\delta}$

$$\delta^N = \frac{q}{2}$$

Interest factor,  $\delta$

