



An incumbent firm faces a potential entrant. The firms produce differentiated products. The entrant chooses In or Out. The incumbent may choose to offer a variety of its product that competes directly with the entrant's (Aggressive) or may continue with only its current product (Passive). Payoffs for possible action pairs (with the entrant listed first) are:

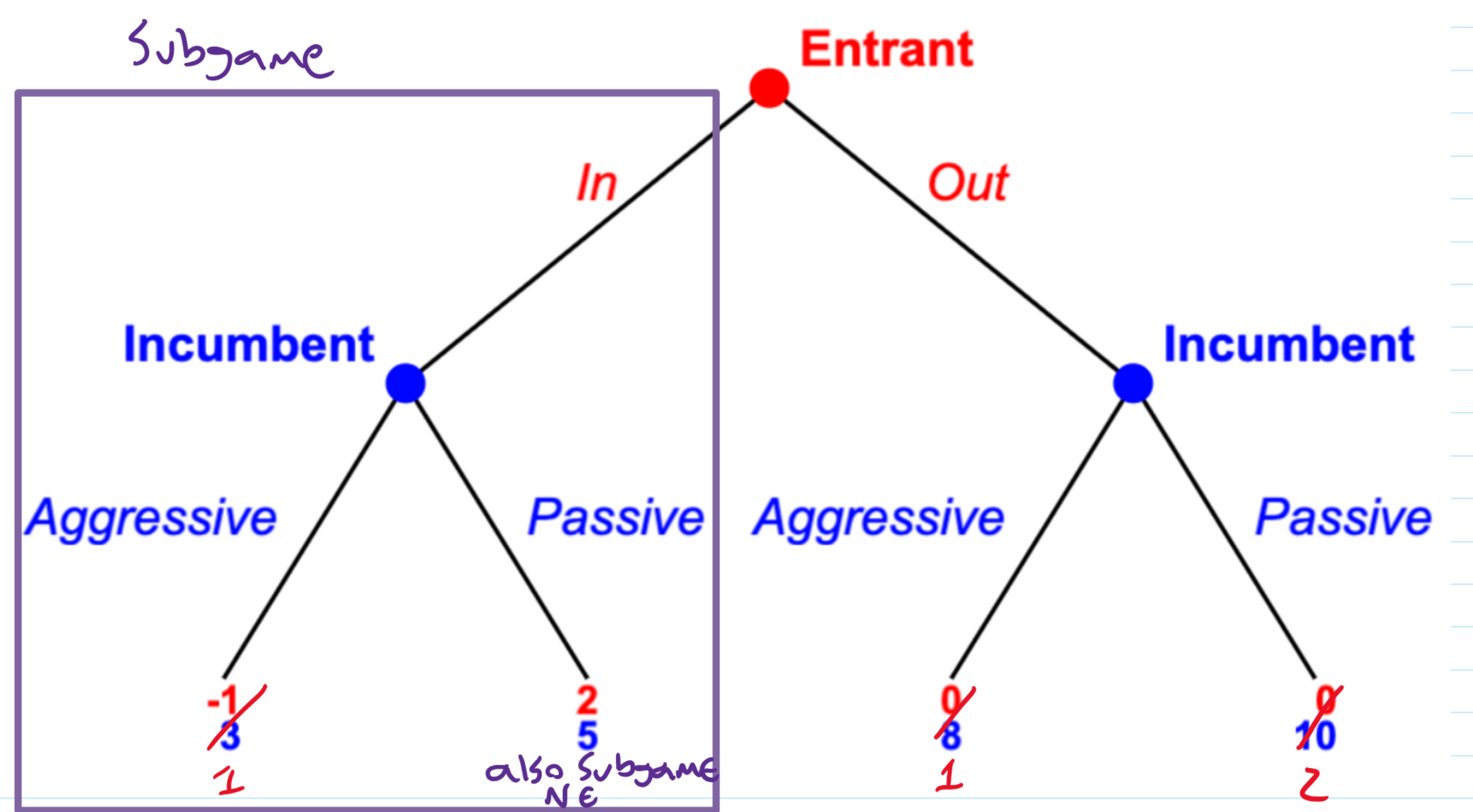
In, Aggressive -> -1, 3

In, Passive -> 2, 5

Out, Aggressive -> 0, 8

Out, Passive -> 0, 10

a) Analyze the game where the entrant moves first. Find all pure strategy equilibria and identify which, if any, are subgame perfect.



b) Analyze the game where the incumbent moves first. Find all pure strategy equilibria and identify which, if any, are subgame perfect.

