

Example 4: Duopoly

Two firms produce the same good, for which each firm charges either a low price or a high price. Each firm wants to achieve maximum profit.

If both firm chooses High \Rightarrow each earns profit of \$1000

If one chooses High and other low \Rightarrow firm choosing High obtains no customers and makes a loss of \$200

whereas firm choosing low, earns \$1200 profit

If both chooses low \Rightarrow each earns \$600 profit.

F1 \ F2	High	Low
High	1000, 1000	-200, 1200
Low	1200, -200	600, 600