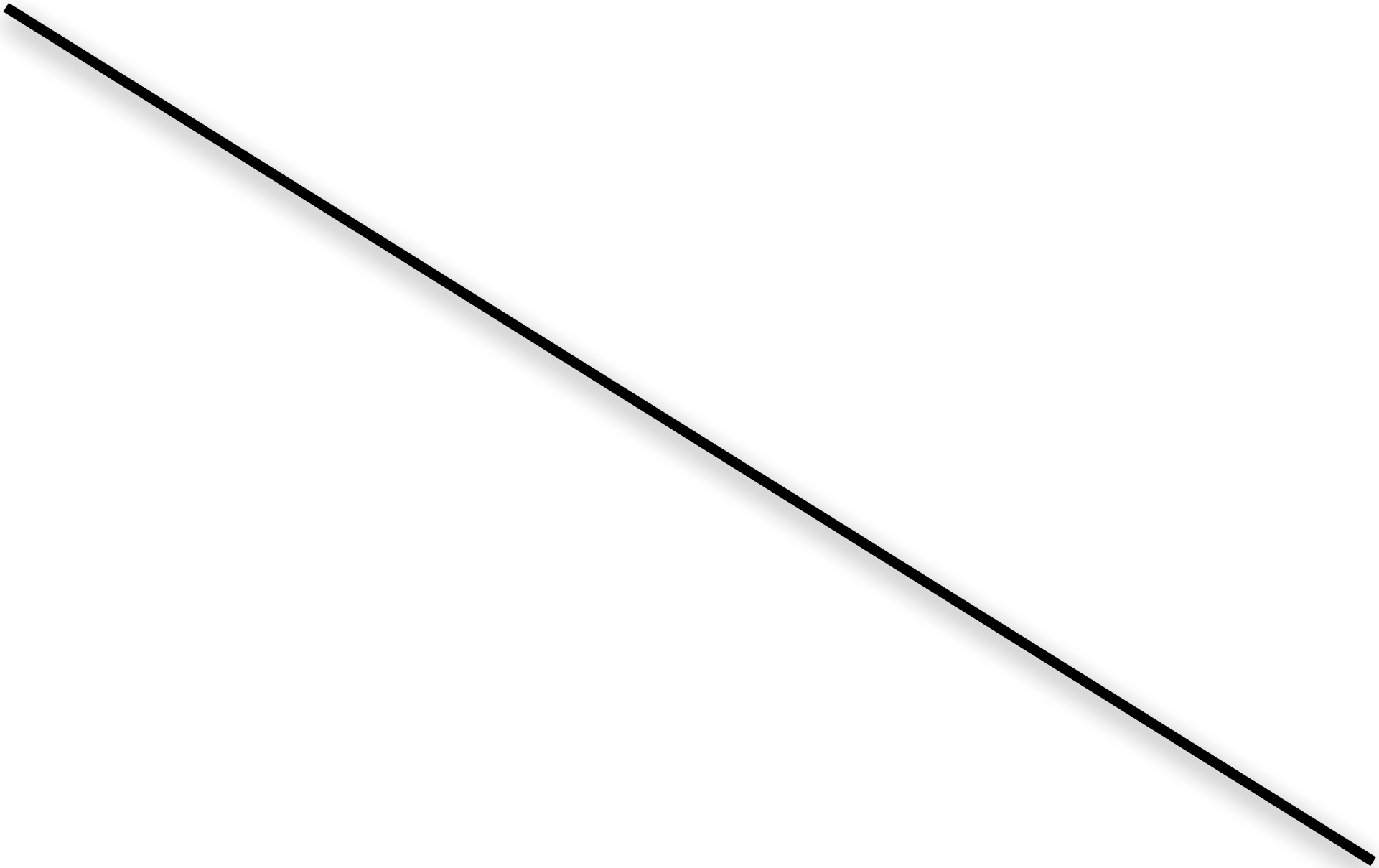
Revenues

If country A cooperates

If country B cooperates



A gets:

$960

B gets:

$960

If country B cheats

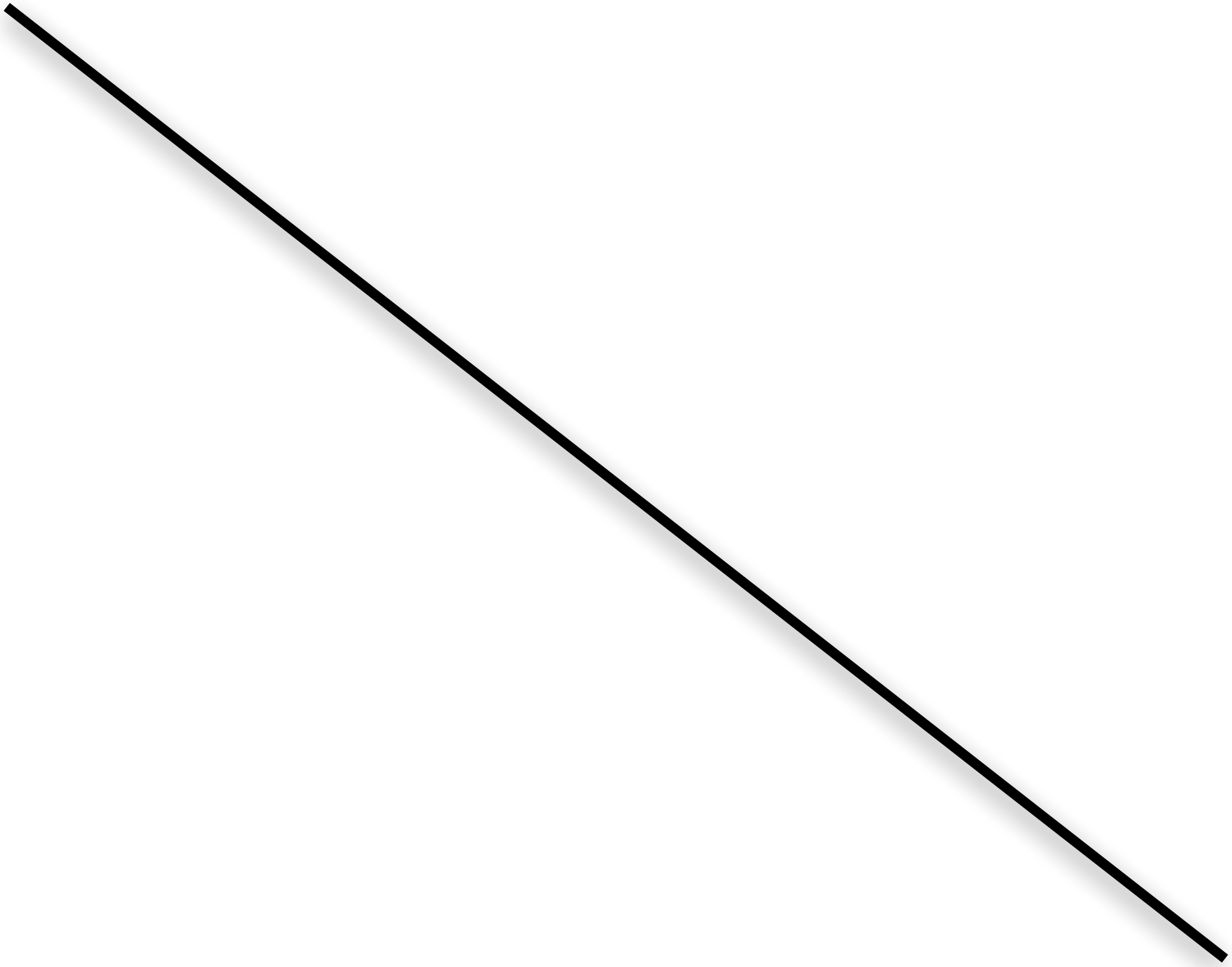
If country A cheats

A gets:

$840

B gets:

$840

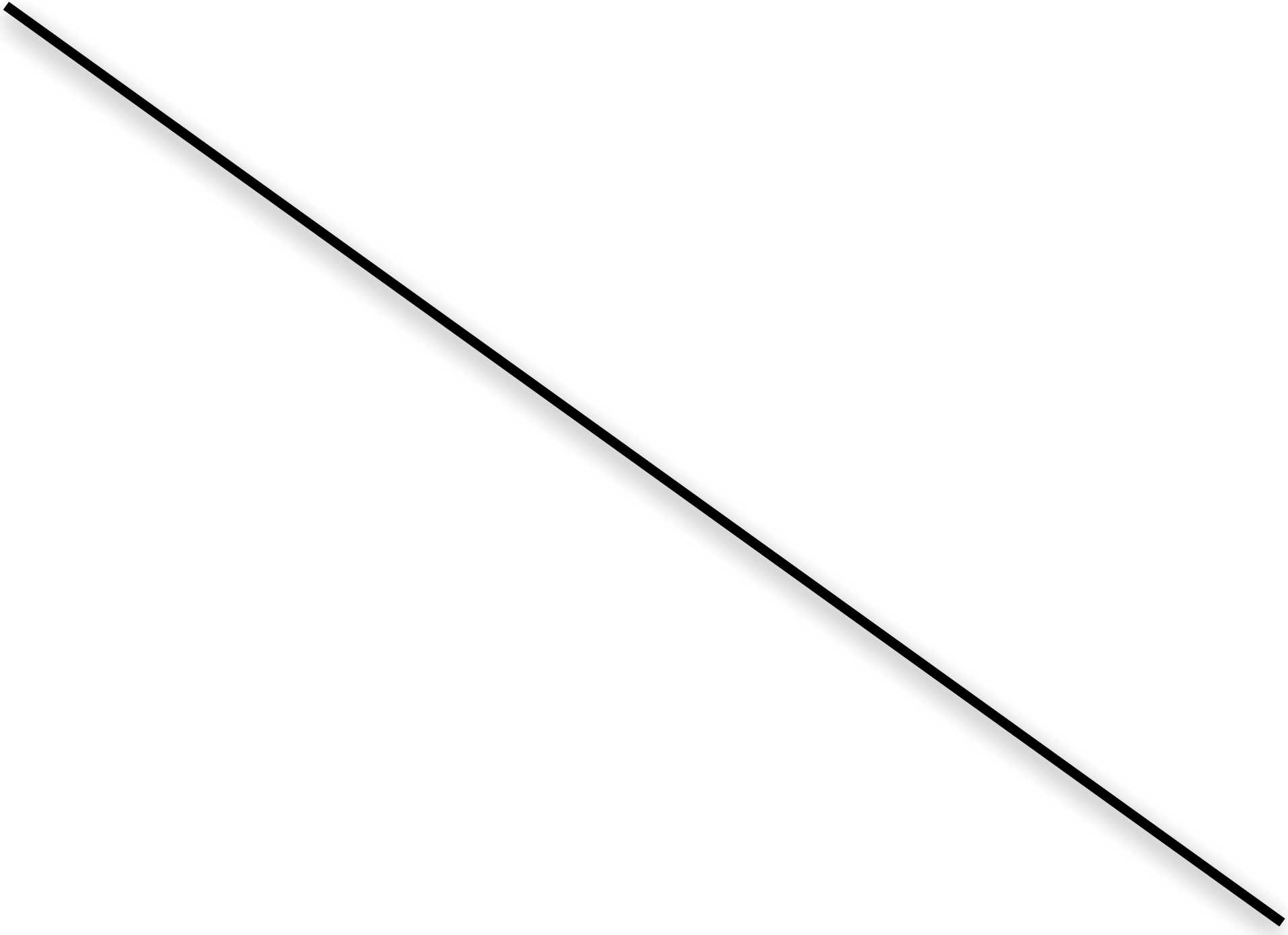


A gets:

$1,260

B gets:

$720

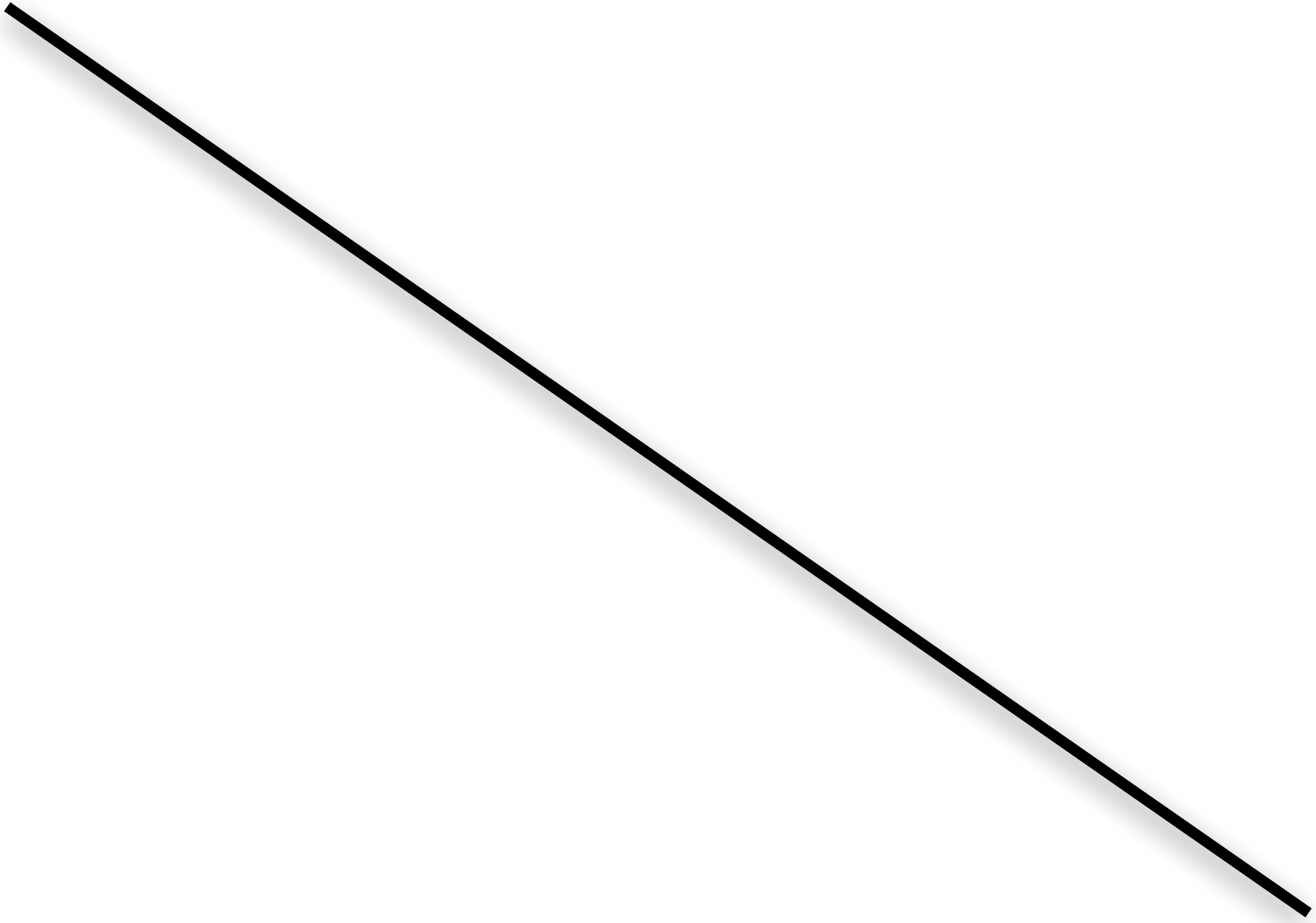


A gets:

$720

B gets:

$1,260



If country A cooperates

If country B cooperates

If country A cheats

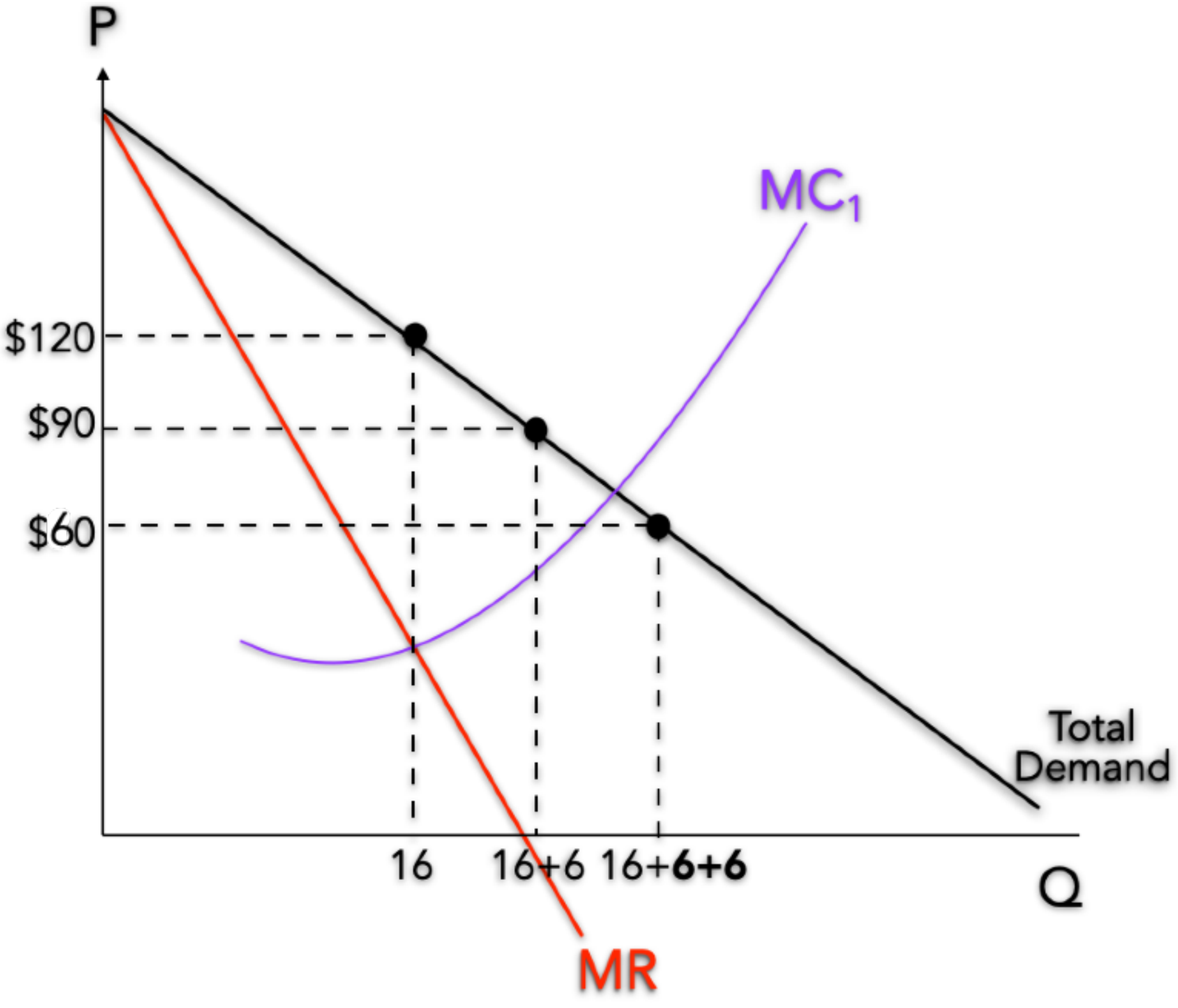

Dominant
Strategy for
A: cheat!

If both countries follow their own self interest

Both countries will **cheat** the agreement

Both countries will be worse off: they will each make **$840** in revenue


Less than what they would have made cooperating!


P
MC_1
$120
$90
$60
Total Demand
16
16+6
16+6+6
Q
MR

Both countries cheat: produce 28m barrels; price $60


Dominant
Strategy for
B: cheat!

Both countries cooperate: produce 16m barrels; price $120

Consumers are better off when companies do not or not allowed to collude

If both countries follow their own self interest

Revenues

	If country B cooperates	If country B cheats
If country A cooperates	A gets: $960 B gets: $960	B gets: $840
If country A cheats	A gets: $840	

Less than what they would have made cooperating!

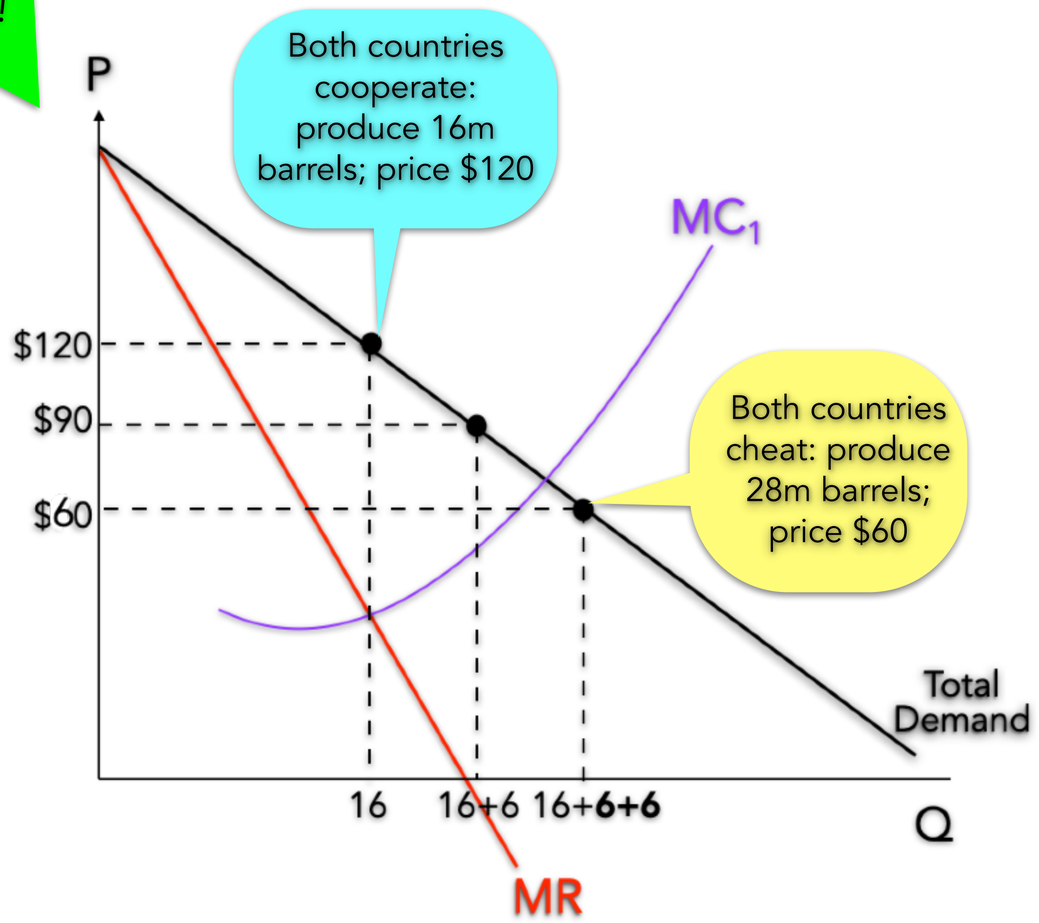
Dominant Strategy for B: cheat!

Dominant Strategy for A: cheat!

Both countries will **cheat** the agreement

Both countries will be worse off: they will each make **$840** in revenue

Consumers are better off when companies do not or not allowed to collude



Games Without a Dominant Strategy

Let's find the best strategy for Country B

	If country B cooperates	If country B cheats
If country A cooperates	B gets: $960 A gets: $960	B gets: $1,260 A gets: $720
If country A cheats	B gets: $720 A gets: $1,260	B gets: $840 A gets: $840