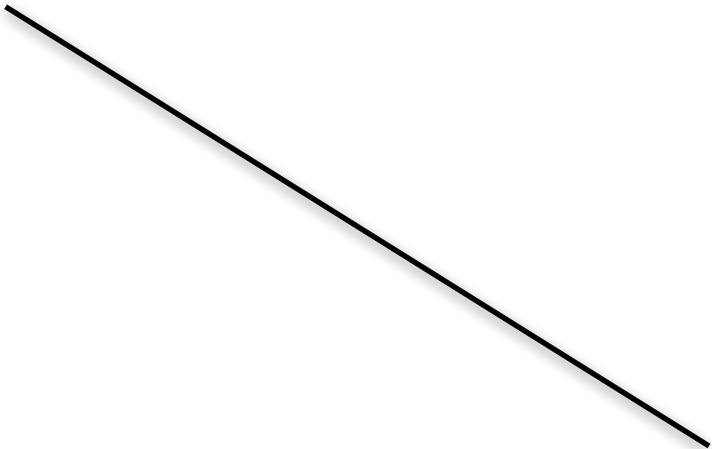


Revenues

If country A
cooperates

If country B
cooperates



A gets:

\$960

B gets:

\$960

If country B
cheats

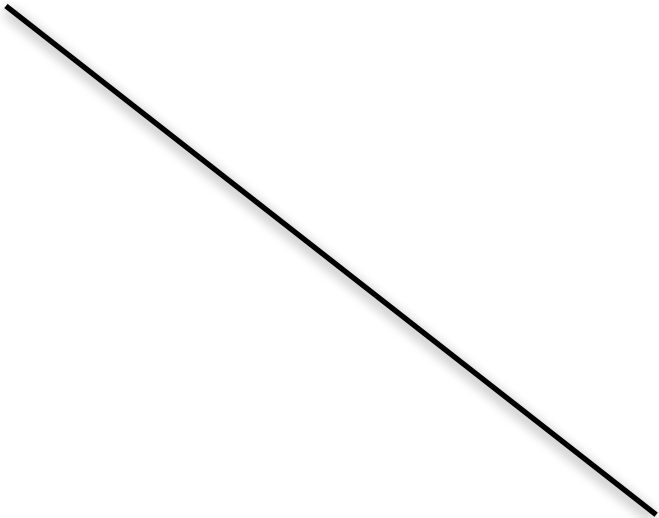
If country A
cheats

A gets:

\$700

B gets:

\$700

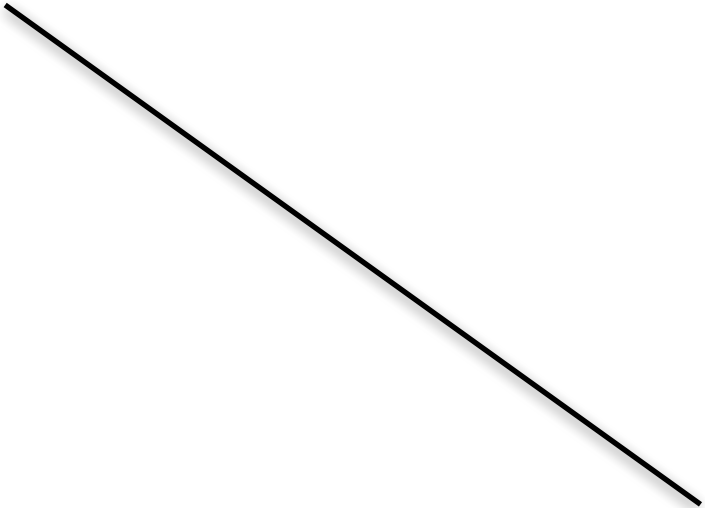


A gets:

\$1,260

B gets:

\$720

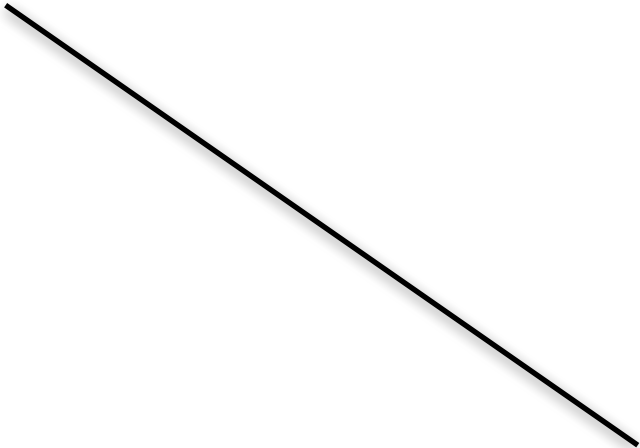


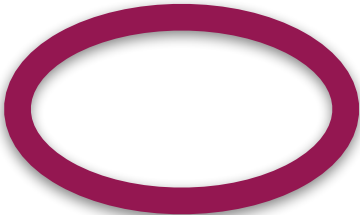
A gets:

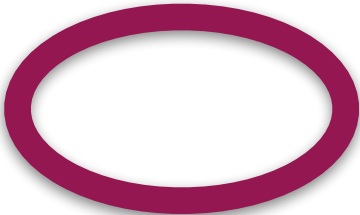
\$720

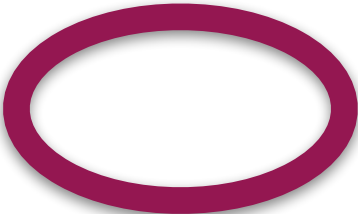
B gets:

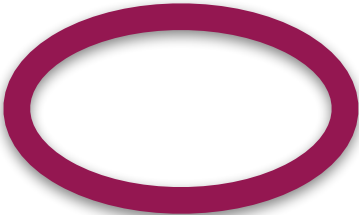
\$1,260











Consider this situation when **A cheats** and **B cooperates**: This is a Nash equilibrium, because neither player has an incentive to do otherwise:









A can not increase his payoff by switching to cooperate

B cannot increase his payoff by switching to cheat





Consider this situation when **A cooperates** and **B cheats**: This is also a Nash equilibrium, because neither player has an incentive to do otherwise:

A can not increase his payoff by switching to
cheat

B can not increase his payoff by switching
to cooperate













Nash Equilibrium

Revenues

	If country B cooperates	If country B cheats
If country A cooperates	A gets: \$960 B gets: \$960	A gets: \$720 B gets: \$1,260
If country A cheats	A gets: \$1,260 B gets: \$720	A gets: \$700 B gets: \$700

Consider this situation when **A cooperates** and **B cheats**: This is also a Nash equilibrium, because neither player has an incentive to do otherwise:

A can not increase his payoff by switching to cheat

B can not increase his payoff by switching to cooperate

Consider this situation when **A cheats** and **B cooperates**: This is a Nash equilibrium, because neither player has an incentive to do otherwise:

A can not increase his payoff by switching to cooperate

B can not increase his payoff by switching to cheat

Nash Equilibrium

Determining Industry Structure