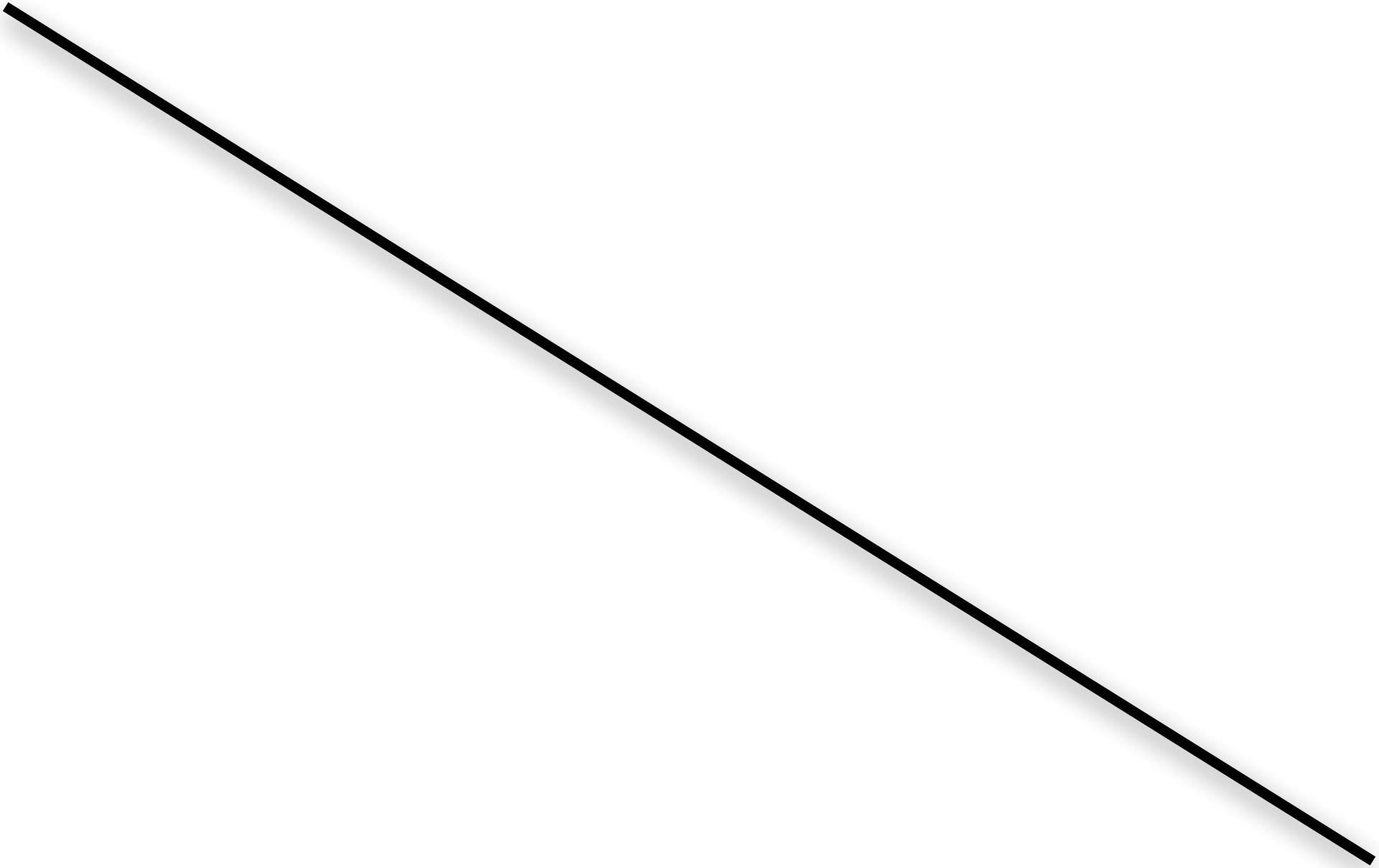
Revenues

If country A cooperates

If country B cooperates



A gets:

$960

B gets:

$960

If country B cheats

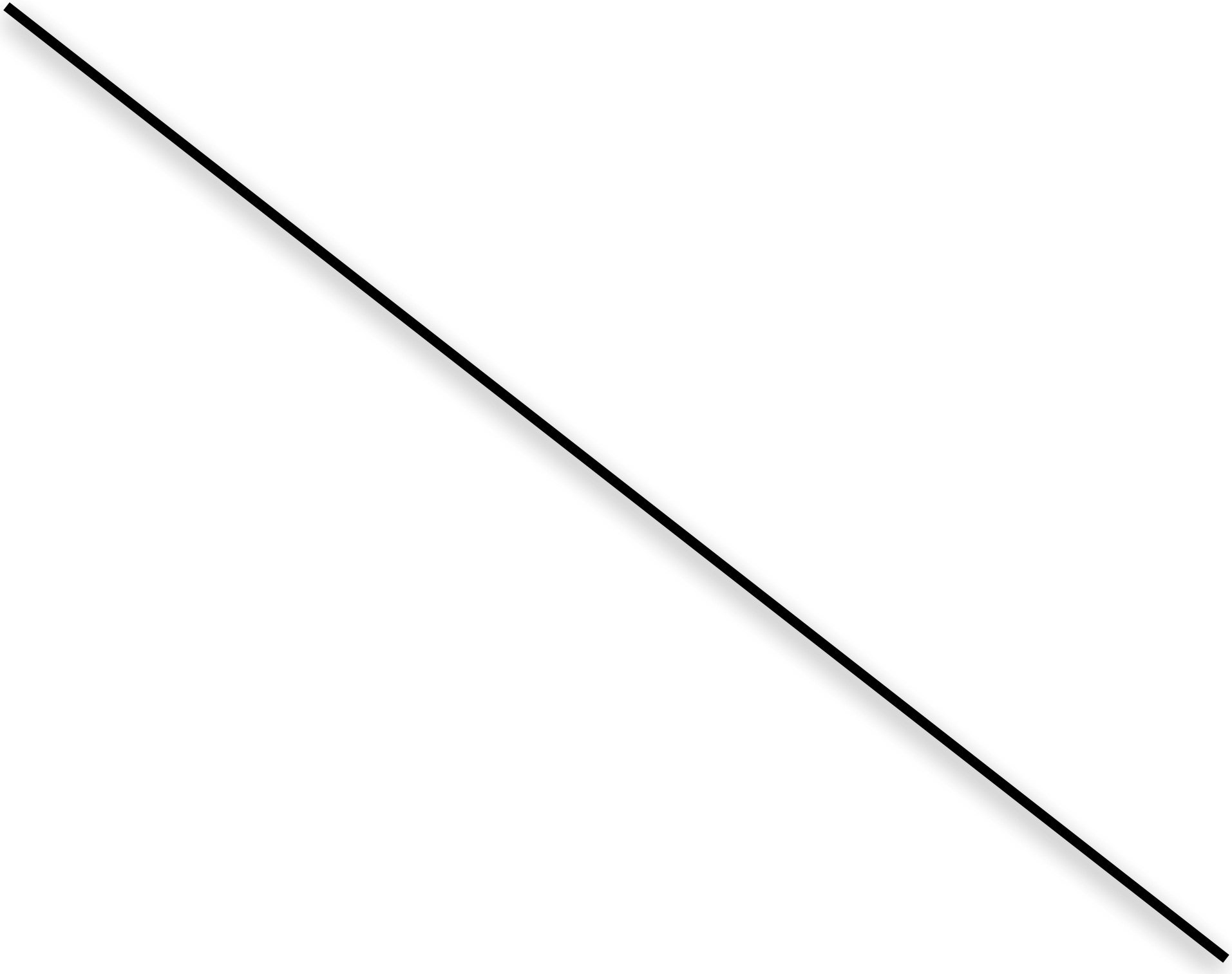
If country A cheats

A gets:

$700

B gets:

$700

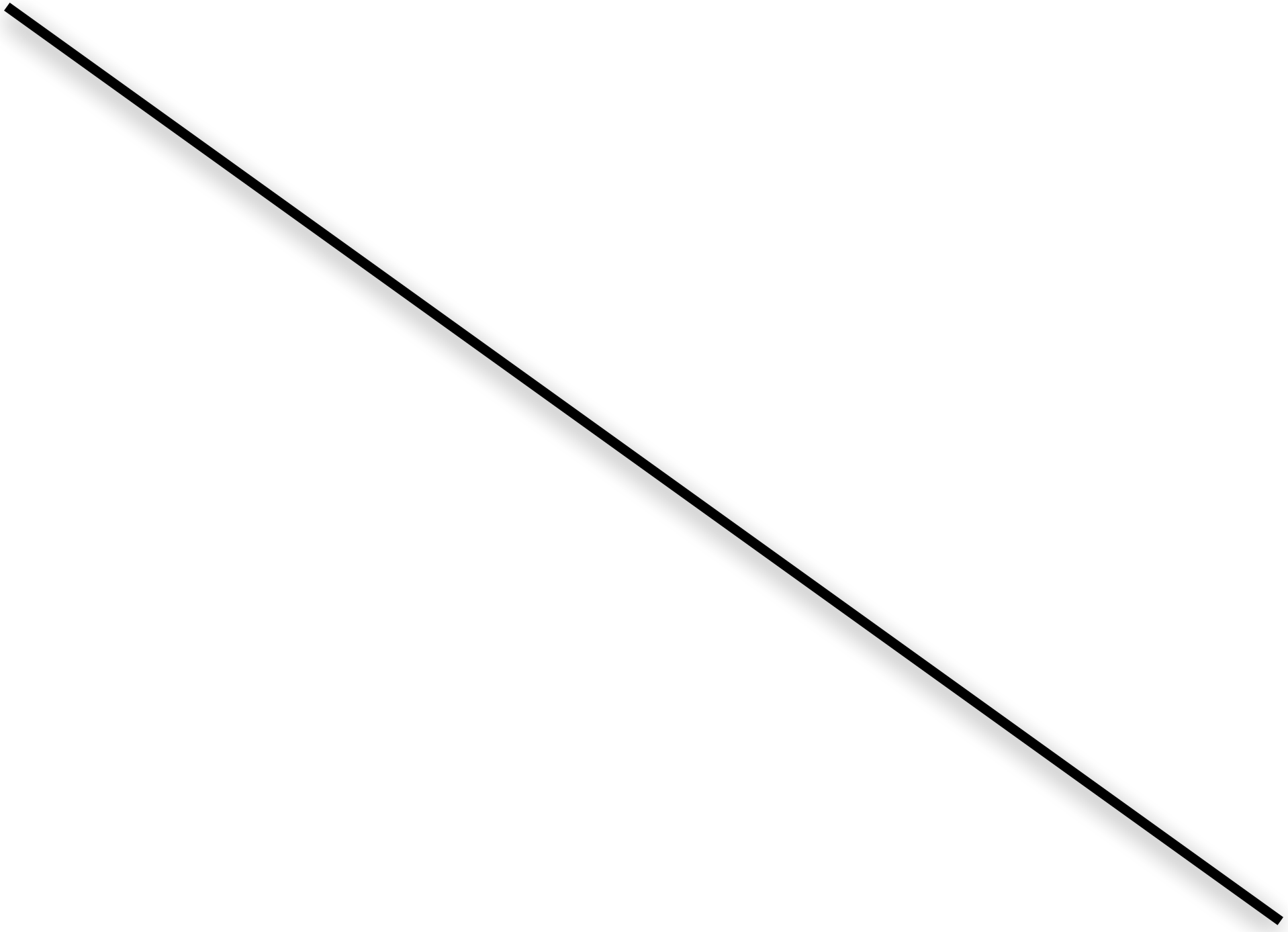


A gets:

$1,260

B gets:

$720

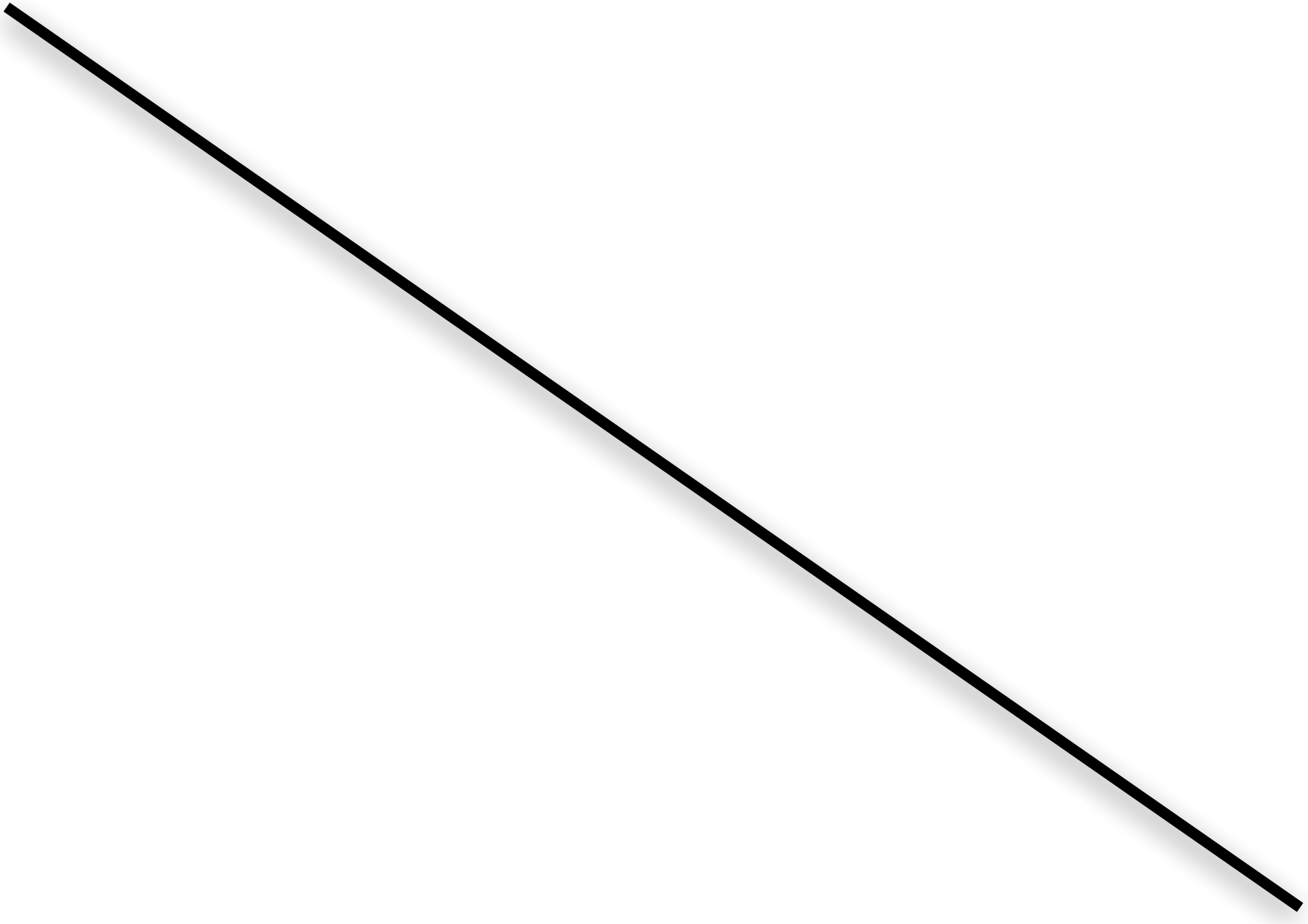


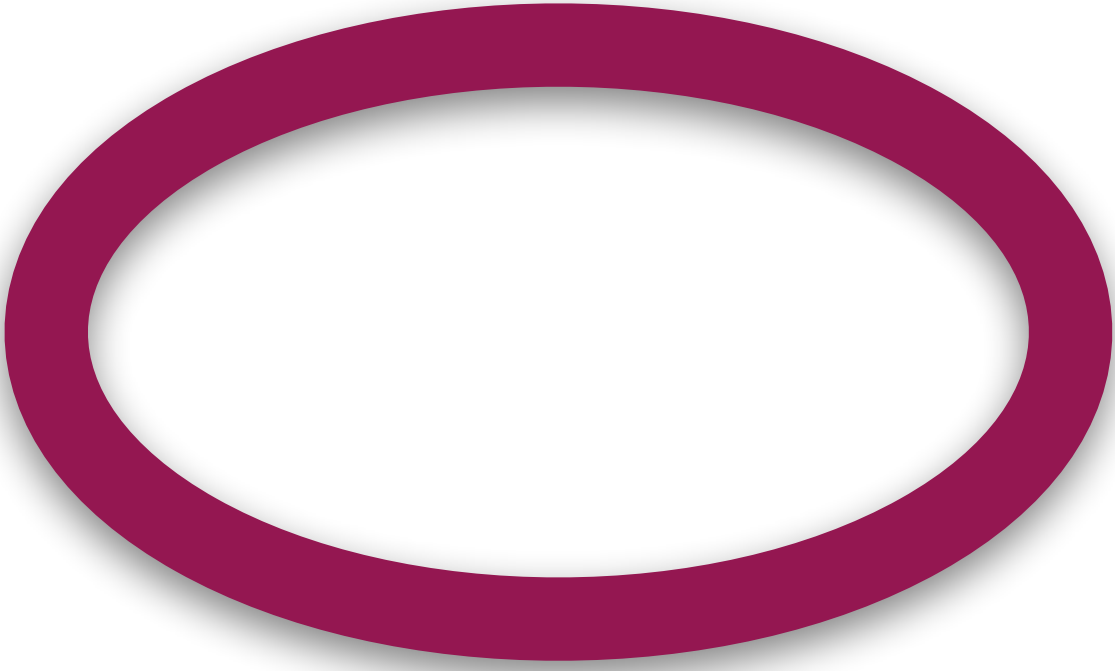
A gets:

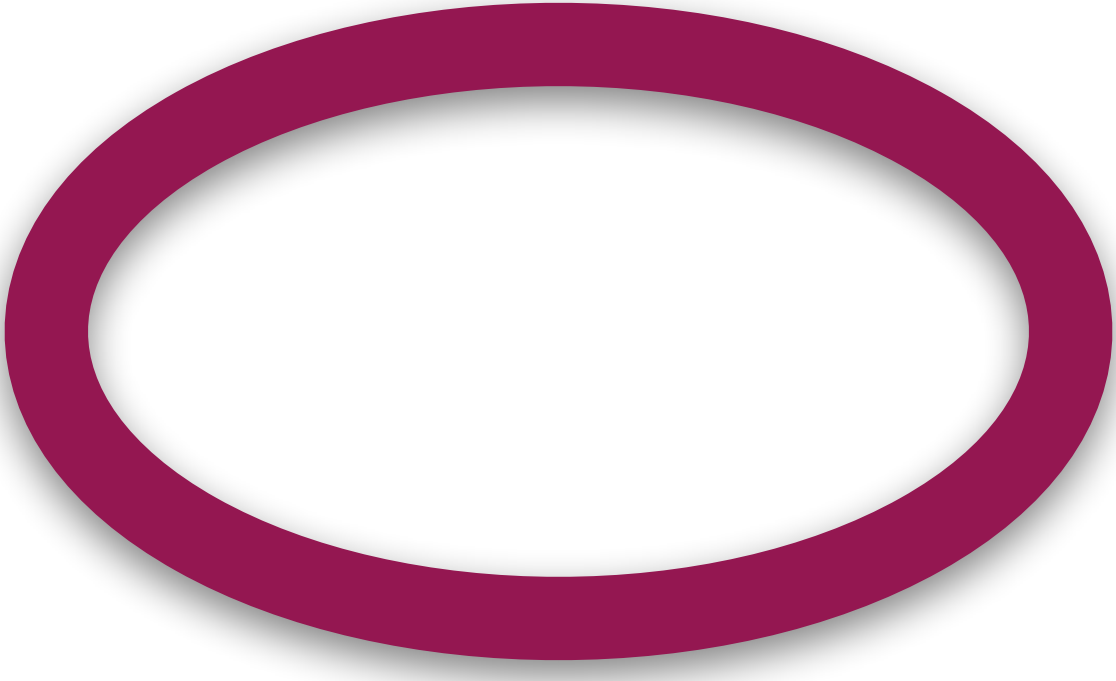
$720

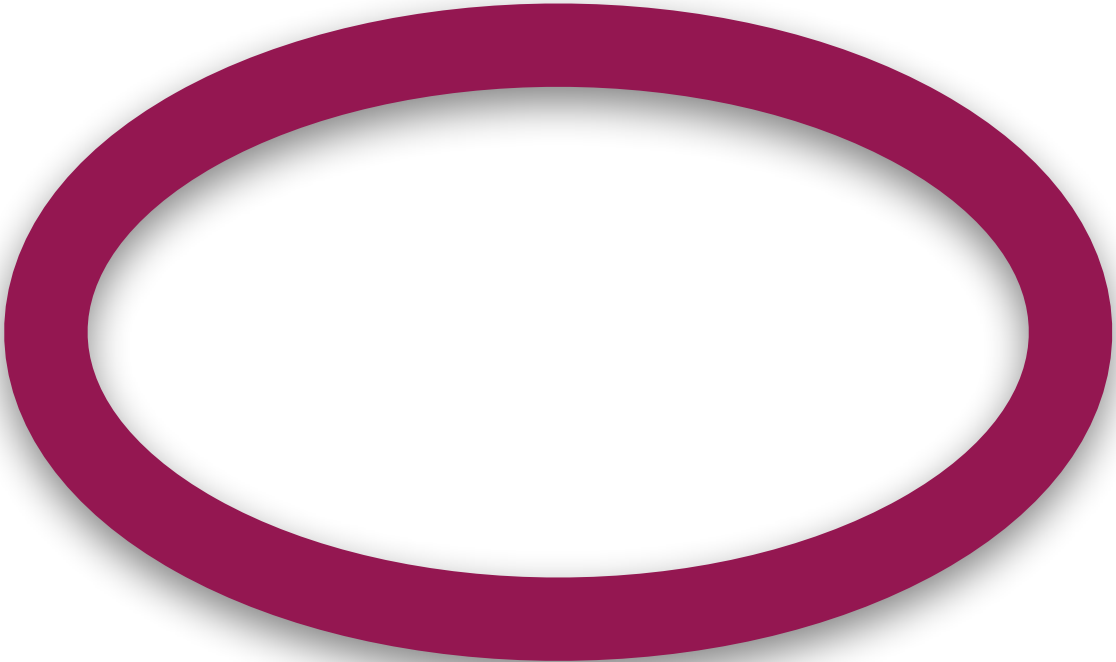
B gets:

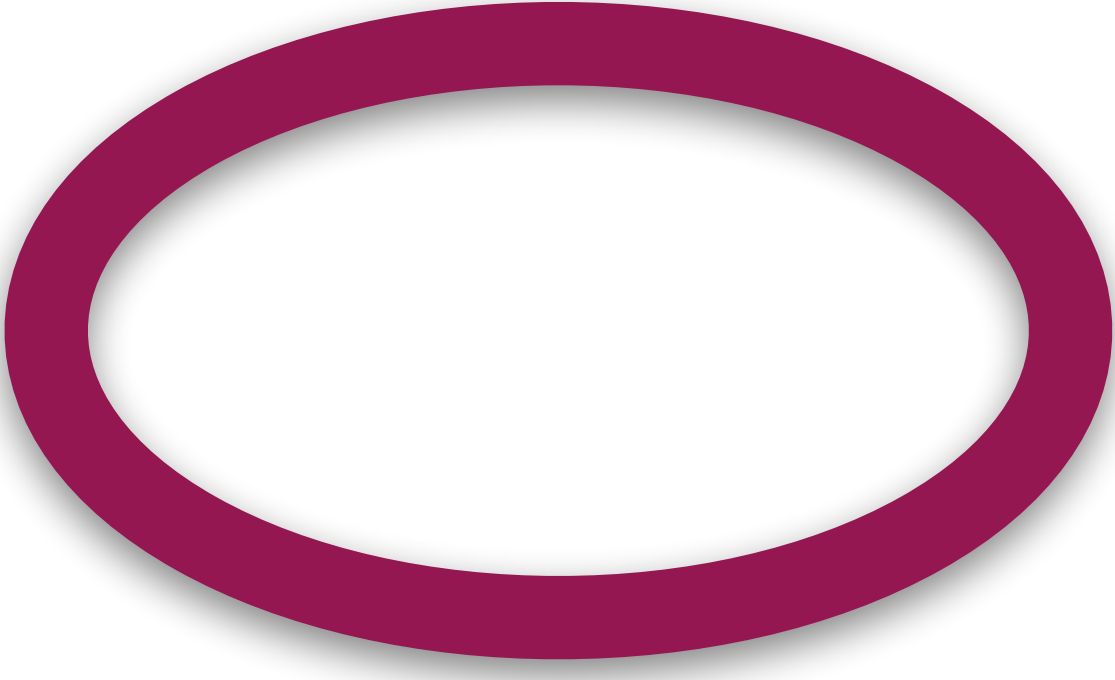
$1,260



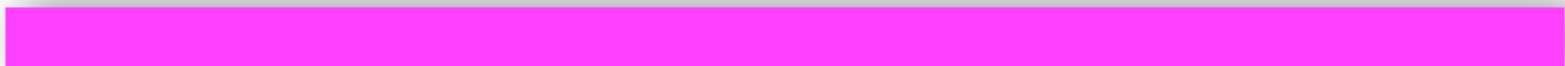


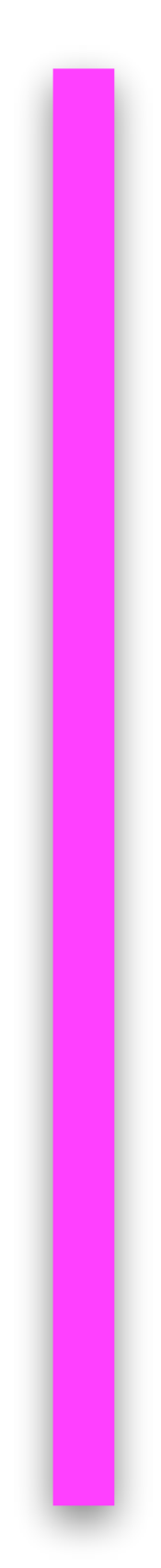






Consider this situation when A cheats and B cooperates:This is a Nash equilibrium, because neither player has an incentive to do otherwise:





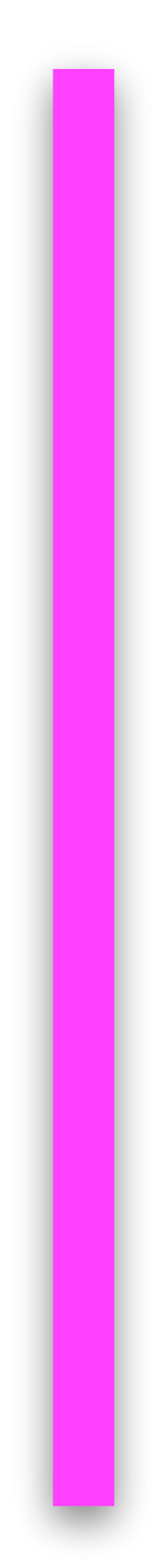
A can not increase his payoff by switching to cooperate

B can not 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:

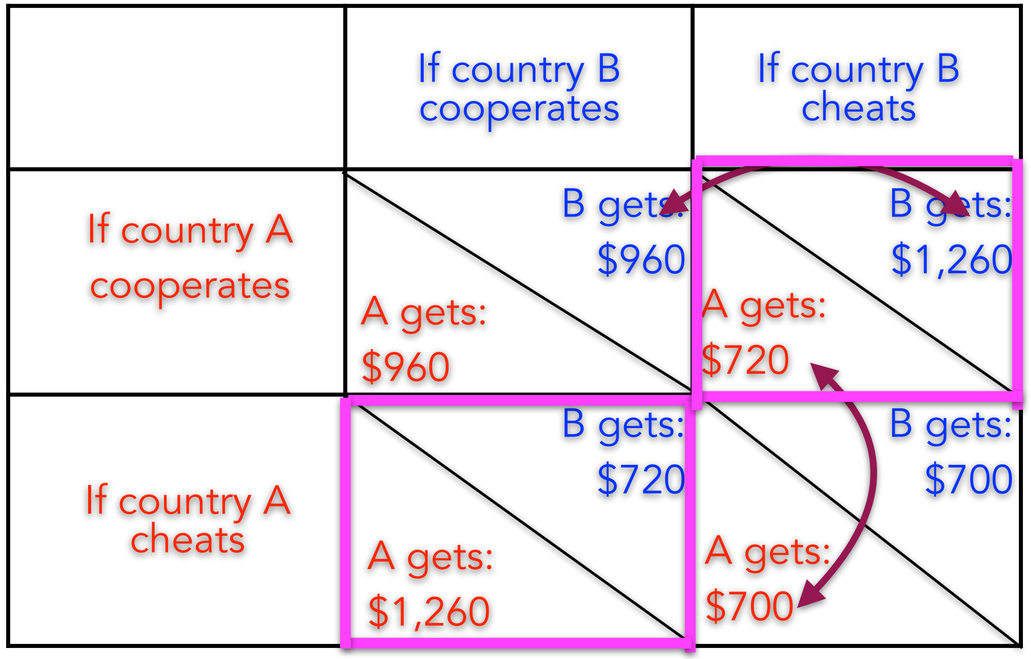
A can not increase his payoff by switching to cheat

B can not increase his payoff by switching to cooperate



Nash Equilibrium

Revenues



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

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Nash Equilibrium