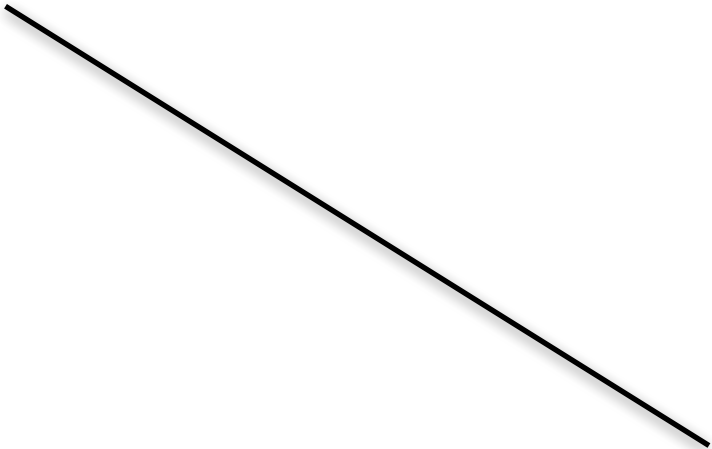


Revenues

If country A
cooperates

If country B
cooperates



A gets:

\$960

B gets:

\$960

If country B
cheats

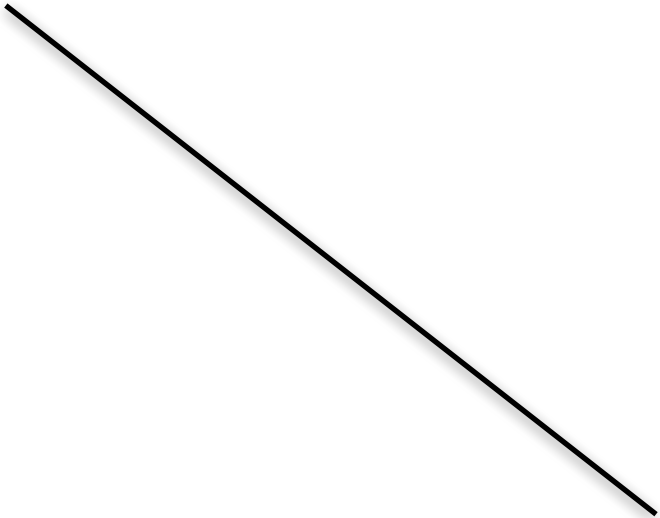
If country A
cheats

A gets:

\$700

B gets:

\$700

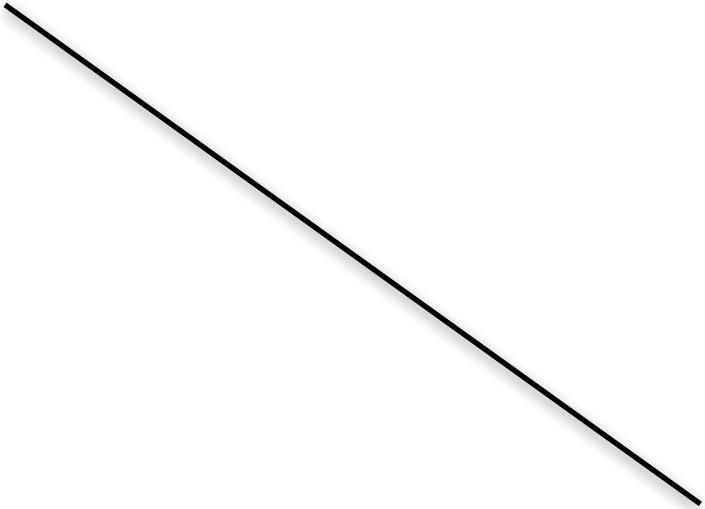


A gets:

\$1,260

B gets:

\$720

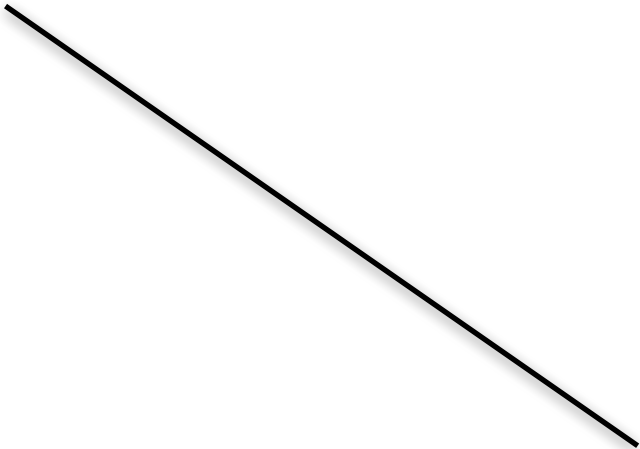


A gets:

\$720

B gets:

\$1,260



Nash Equilibrium













2

N

S







U







b



U





F













b



S





a

















a





a



















m





























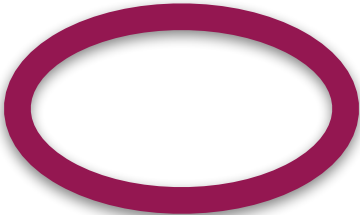


9

V

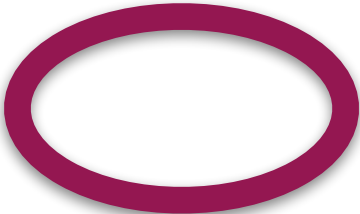




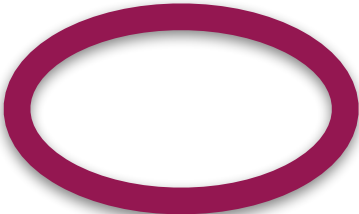


If B cooperates, the best payoff for A (the highest between \$960 and \$1,260) is \$1,260

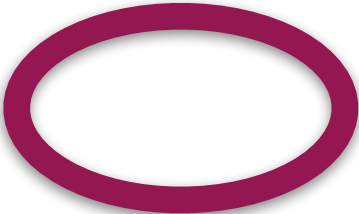
If **B cheats**, the **best payoff** for **A** (the highest
between **\$720** and **\$700**) is **\$720**



If A cooperates, the best
payoff for B (the highest
between \$960 and
\$1,260) is \$1,260



If A cheats, the best
payoff for B (the highest
between \$720 and \$700)
is \$720



To find a Nash equilibrium:
Find the best payoff for each
alternative move of the other
player

Nash Equilibrium

To find a Nash equilibrium:
Find the **best payoff** for each **alternative move** of the other player

If **B cheats**, the **best payoff** for **A** (the highest between \$**720** and \$**700**) is \$**720**

If **B cooperates**, the **best payoff** for **A** (the highest between \$**960** and \$**1,260**) is \$**1,260**

	Revenues	
	If country B cooperates	If country B cheats
If country A cooperates	<div>A gets: \$960</div> <div>B gets: \$960</div>	<div>A gets: \$720</div> <div>B gets: \$1,260</div>
If country A cheats	<div>A gets: \$1,260</div> <div>B gets: \$720</div>	<div>A gets: \$700</div> <div>B gets: \$700</div>

If **A cheats**, the **best payoff** for **B** (the highest between \$**720** and \$**700**) is \$**720**

If **A cooperates**, the **best payoff** for **B** (the highest between \$**960** and \$**1,260**) is \$**1,260**

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

Nash Equilibrium