

Game Theory

Static and Complete Information Games

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Some Notes and Assumptions

- ▶ We assume that players are rational (means that selects the choice which gives him/her the maximum payoff).
- ▶ Other than rationality assumption, we also assume that each players know that all the other players are rational, which is a different and more strong assumption from the rationality assumption of each players.
- ▶ And for this case, the discreet games, there are finite numbers of strategies for each player.

Mathematical Notations

Number of Players = n

Set of Possible Strategies for i th Player = $S_i = \{s_i^1, s_i^2 \dots s_i^m\}$

Utility of i th Player from the Strategies of Players = $u_i(s_i, s_{-i})$

Dominant Strategy Games

- ▶ In this kind of games, players will be able to eliminate some of their choices, which narrows down to the dominant strategy

Dominant Strategy Games

	L	R
L	(0,0)	(0,2)
R	(2,0)	(1,1)

- ▶ Since in this game, for the first player, irrespective of second player's strategy, he/she should choose R because if second player choose L , in order to maximize its payoff, it should choose R , which is 2. And it is also valid if second play R . Thus we can eliminate the choice of L for first player, which means that the L is dominated by R
- ▶ This interpretation should be carried for second player as well. Which eliminates the choice of L and means that R dominates L .

Dominant Strategy Games

	L	R
L	(0,0)	(0,2)
R	(2,0)	(1,1)

- As we have indicated, irrespective of the choice of their competitors, both player will eliminate the choice of L . We can show it mathematically:

$$u_1(R, L) > u_1(L, L) \mid u_1(R, R) > u_1(L, R)$$

$$u_2(L, R) > u_2(L, L) \mid u_2(R, R) > u_2(R, L)$$

Dominant Strategy Games

- ▶ Thus, we have only the solution of right and right.

$$\{R, R\}$$

- ▶ We call this solution as Dominant Strategy Equilibrium.