

Game Theory.

① Dominant Strategy Nash equilibrium

		Firm 2	
		Ad	Don't Ad
Firm 1	Ad	10, 5	10, 10
	Don't Ad	6, 8	20, 2

F1 Ad → F2 Don't Ad
 F1 Don't Ad → F2 Don't Ad

Firm 2 Don't Ad dominant strategy

F2 Ad → F1 Ad
 F2 Don't Ad → F1 Don't Ad

Firm 1 Don't Ad has dominant strategy

②

		Firm 2	
		Crispy	Sweet
Firm 1	Crispy	-5, -5	10, 10
	Sweet	10, 10	-5, -5

F1 crispy → F2 sweet
 F2 sweet → F1 crispy

(crispy, sweet) as a NE

F1 chooses sweet → F2 crispy
 F2 chooses crispy → F1 sweet

(sweet, crispy)

F1 chooses sweet → F2 chooses sweet
F2 chooses crispy → F1 chooses sweet

market failure: when fails to operate with efficiency

Reasons: ① Externality (when activity of one party affects the other party)

-ve externality
example: pollution

+ve externality
example: vaccination

② Asymmetric Information → Moral hazard
(incomplete info between buyers & sellers) → Adverse selection
(due to this there will be market failure).

③ Free rider problem due to the provision of public goods

What is public good?

ex: National Defense

1. Non-excludability
2. Non-rivalry.