Contents

Preface xi

- 1 Introduction 1
 - 1.1 Game Theory 1
 - 1.2 Games and Solutions 2
 - 1.3 Game Theory and the Theory of Competitive Equilibrium 3
 - 1.4 Rational Behavior 4
 - 1.5 The Steady State and Deductive Interpretations 5
 - 1.6 Bounded Rationality 6
 - 1.7 Terminology and Notation 6 Notes 8

I Strategic Games 9

2 Nash Equilibrium 11

- 2.1 Strategic Games 11
- 2.2 Nash Equilibrium 14
- 2.3 Examples 15
- 2.4 Existence of a Nash Equilibrium 19
- 2.5 Strictly Competitive Games 21
- 2.6 Bayesian Games: Strategic Games with Imperfect Information 24 Notes 29

3 Mixed, Correlated, and Evolutionary Equilibrium 31

- 3.1 Mixed Strategy Nash Equilibrium 31
- 3.2 Interpretations of Mixed Strategy Nash Equilibrium 37
- 3.3 Correlated Equilibrium 44
- 3.4 Evolutionary Equilibrium 48 Notes 51

4 Rationalizability and Iterated Elimination of Dominated Actions 53

- 4.1 Rationalizability 53
- 4.2 Iterated Elimination of Strictly Dominated Actions 58
- 4.3 Iterated Elimination of Weakly Dominated Actions 62 Notes 64

5 Knowledge and Equilibrium 67

- 5.1 A Model of Knowledge 67
- 5.2 Common Knowledge 73
- 5.3 Can People Agree to Disagree? 75
- 5.4 Knowledge and Solution Concepts 76
- 5.5 The Electronic Mail Game 81 Notes 84

II Extensive Games with Perfect Information 87

6 Extensive Games with Perfect Information 89

- 6.1 Extensive Games with Perfect Information 89
- 6.2 Subgame Perfect Equilibrium 97
- 6.3 Two Extensions of the Definition of a Game 101
- 6.4 The Interpretation of a Strategy 103
- 6.5 Two Notable Finite Horizon Games 105
- 6.6 Iterated Elimination of Weakly Dominated Strategies 108 Notes 114

7 Bargaining Games 117

- 7.1 Bargaining and Game Theory 117
- 7.2 A Bargaining Game of Alternating Offers 118
- 7.3 Subgame Perfect Equilibrium 121
- 7.4 Variations and Extensions 127 Notes 131

Contents

8 Repeated Games 133

- 8.1 The Basic Idea 133
- 8.2 Infinitely Repeated Games vs. Finitely Repeated Games 134
- 8.3 Infinitely Repeated Games: Definitions 136
- 8.4 Strategies as Machines 140
- 8.5 Trigger Strategies: Nash Folk Theorems 143
- 8.6 Punishing for a Limited Length of Time: A Perfect Folk Theorem for the Limit of Means Criterion 146
- 8.7 Punishing the Punisher: A Perfect Folk Theorem for the Overtaking Criterion 149
- 8.8 Rewarding Players Who Punish: A Perfect Folk Theorem for the Discounting Criterion 150
- 8.9 The Structure of Subgame Perfect Equilibria Under the Discounting Criterion 153
- 8.10 Finitely Repeated Games 155 Notes 160

9 Complexity Considerations in Repeated Games 163

- 9.1 Introduction 163
- 9.2 Complexity and the Machine Game 164
- 9.3 The Structure of the Equilibria of a Machine Game 168
- 9.4 The Case of Lexicographic Preferences 172 Notes 175

10 Implementation Theory 177

- 10.1 Introduction 177
- 10.2 The Implementation Problem 178
- 10.3 Implementation in Dominant Strategies 180
- 10.4 Nash Implementation 185
- 10.5 Subgame Perfect Equilibrium Implementation 191 Notes 195