

contents



*Sections that are starred are less important

- List of Figures
- List of Tables
- List of Games

Preface

Contents and Purpose	xviii
Changes in the Second Edition, 1994	xviii
Changes in the Third Edition, 2001	xix
Changes in the Fourth Edition, 2006	xx
Using the Book	xxii
The Level of Mathematics	xxii
Other Books	xxiii
Contact Information	xxviii
Acknowledgements	xxviii

Introduction

History	1
Game Theory's Method	2
Exemplifying Theory	2
This Book's Style	4
Notes	6

Part 1: Game Theory

1 The Rules of the Game	11
1.1 Definitions	11
1.2 Dominated and Dominant Strategies: The Prisoner's Dilemma	19
1.3 Iterated Dominance: The Battle of the Bismarck Sea	22

1.4	Nash Equilibrium: Boxed Pigs, the Battle of the Sexes, and Ranked Coordination	26
1.5	Focal Points	32
	Notes	33
	Problems	36
	Classroom Game: Fisheries (polished)	39
2	Information	40
2.1	The Strategic and Extensive Forms of a Game	40
2.2	Information Sets	45
2.3	Perfect, Certain, Symmetric, and Complete Information	49
2.4	The Harsanyi Transformation and Bayesian Games	52
2.5	An Example: The Png Settlement Game	61
	Notes	64
	Problems	66
	Classroom Game: Bayes' Rule at the Bar (in between)	68
3	Mixed and Continuous Strategies	69
3.1	Mixed Strategies: The Welfare Game	69
3.2	The Payoff-equating Method and Games of Timing	74
*3.3	Mixed Strategies with General Parameters and N Players: The Civic Duty Game	81
*3.4	Randomizing Is Not Always Mixing: The Auditing Game	85
3.5	Continuous Strategies: The Cournot Game	87
3.6	Continuous Strategies: The Bertrand Game, Strategic Complements, and Strategic Substitutes	90
*3.7	Existence of Equilibrium	95
	Notes	98
	Problems	103
	Classroom Game: The War of Attrition (polished)	107
4	Dynamic Games with Symmetric Information	108
4.1	Subgame Perfectness	108
4.2	An Example of Perfectness: Entry Deterrence I	111
4.3	Credible Threats, Sunk Costs, and the Open-set Problem in the Game of Nuisance Suits	113
4.4	Recoordination to Pareto-dominant Equilibria in Subgames: Pareto Perfection	120
	Notes	122
	Problems	123
	Classroom Game: U.S. Air for Sale (polished)	126
5	Reputation and Repeated Games with Symmetric Information	128
5.1	Finitely Repeated Games and the Chainstore Paradox	128
5.2	Infinitely Repeated Games, Minimax Punishments, and the Folk Theorem	130
5.3	Reputation: The One-sided Prisoner's Dilemma	136
5.4	Product Quality in an Infinitely Repeated Game	137

*5.5	Markov Equilibria and Overlapping Generations: Customer Switching Costs	141
*5.6	Evolutionary Equilibrium: The Hawk–Dove Game	143
	Notes	147
	Problems	151
	Classroom Game: The Repeated Prisoner’s Dilemma (in between)	155
6	Dynamic Games with Incomplete Information	156
6.1	Perfect Bayesian Equilibrium: Entry Deterrence II and III	156
6.2	Refining Perfect Bayesian Equilibrium in the Entry Deterrence and PhD Admissions Games	160
6.3	The Importance of Common Knowledge: Entry Deterrence IV and V	164
6.4	Incomplete Information in the Repeated Prisoner’s Dilemma: The Gang of Four Model	166
6.5	The Axelrod Tournament	169
*6.6	Credit and the Age of the Firm: The Diamond Model	170
	Notes	172
	Problems	175
	Classroom Game: The Repeated Prisoner’s Dilemma under Incomplete Information (improveable)	177
Part 2:	Asymmetric Information	179
7	Moral Hazard: Hidden Actions	181
7.1	Categories of Asymmetric Information Models	181
7.2	A Principal–Agent Model: The Production Game	184
7.3	The Incentive Compatibility and Participation Constraints	194
7.4	Optimal Contracts: The Broadway Game	195
	Notes	201
	Problems	204
	Classroom Game: Moral Hazard Contracts Game (improveable)	210
8	Further Topics in Moral Hazard	211
8.1	Efficiency Wages	211
8.2	Tournaments	214
*8.3	Institutions and Agency Problems	216
*8.4	Renegotiation: The Repossession Game	219
*8.5	State-space Diagrams: Insurance Games I and II	222
*8.6	Joint Production by Many Agents: The Holmstrom Teams Model	227
*8.7	The Multitask Agency Problem	230
	Notes	236
	Problems	239
	Classroom Game: Lobbying Teams (polished)	242
9	Adverse Selection	243
9.1	Introduction: Production Game VI	243
9.2	Adverse Selection under Certainty: Lemons I and II	249
9.3	Heterogeneous Tastes: Lemons III and IV	252

9.4	Adverse Selection under Uncertainty: Insurance Game III	255
*9.5	Market Microstructure	259
*9.6	A Variety of Applications	263
9.7	Adverse Selection and Moral Hazard Combined: Production Game VII	266
	Notes	269
	Problems	272
	Classroom Game: Adverse Selection in Stock Sales (improveable)	275
10	Mechanism Design and Postcontractual Hidden Knowledge	276
10.1	Mechanisms, Unravelling, Cross Checking, and the Revelation Principle	276
10.2	Myerson Mechanism Design	287
10.3	An Example of Postcontractual Hidden Knowledge: The Salesman Game	289
*10.4	The Groves Mechanism	293
10.5	Price Discrimination	296
*10.6	Rate-of-return Regulation and Government Procurement	304
	Notes	314
	Problems	316
	Classroom Game: Regulatory Ratcheting (improveable)	319
11	Signalling	320
11.1	The Informed Player Moves First: Signalling	320
11.2	Variants on the Signalling Model of Education	324
11.3	General Comments on Signalling in Education	329
11.4	The Informed Player Moves Second: Screening	330
*11.5	Two Signals: The Game of Underpricing New Stock Issues	338
*11.6	Signal Jamming and Limit Pricing	341
*11.7	Countersignalling	345
	Notes	348
	Problems	349
	Classroom Game: Signalling Marriageability (improveable)	353
Part 3:	Applications	355
12	Bargaining	357
12.1	The Basic Bargaining Problem: Splitting a Pie	357
12.2	The Nash Bargaining Solution	359
12.3	Alternating Offers over Finite Time	361
12.4	Alternating Offers over Infinite Time	362
12.5	Incomplete Information	365
*12.6	Setting Up a Way to Bargain: The Myerson–Satterthwaite Model	369
	Notes	380
	Problems	381
	Classroom Game: Labor Bargaining (polished)	384
13	Auctions	385
13.1	Values Private and Common, Continuous and Discrete	385
13.2	Optimal Strategies under Different Rules in Private-value Auctions	390

13.3	Revenue Equivalence, Risk Aversion, and Uncertainty	403
13.4	Reserve Prices and the Marginal Revenue Approach	409
13.5	Common-value Auctions and the Winner's Curse	414
13.6	Asymmetric Equilibria, Affiliation, and Linkage: The Wallet Game	423
	Notes	428
	Problems	430
	Classroom Game: Auctions (polished)	432
14	Pricing	433
14.1	Quantities as Strategies: Cournot Equilibrium Revisited	433
14.2	Capacity Constraints: The Edgeworth Paradox	436
14.3	Location Models	441
14.4	Comparative Statics and Supermodular Games	449
*14.5	Vertical Differentiation	454
*14.6	Durable Monopoly	461
	Notes	467
	Problems	469
	Classroom Game: The Kleit Oligopoly Game (polished)	472
	Mathematical Appendix	473
*A.1	Notation	473
*A.2	The Greek Alphabet	475
*A.3	Glossary	475
*A.4	Formulas and Functions	479
*A.5	Probability Distributions	480
*A.6	Supermodularity	482
*A.7	Fixed Point Theorems	484
*A.8	Genericity	485
*A.9	Discounting	486
*A.10	Risk	487
	References and Name Index	493
	Subject Index	521