

Contents

Preface

page xi

1	Elements of Optimal Control, Dynamic Programming and Differential Game Theory	1
	1.1 Preliminaries: The Simplest Dynamic Problem	1
	1.2 Optimal Control Theory	3
	1.2.1 Sketch of the Stability Analysis	6
	1.3 Dynamic Programming	6
	1.4 Differential Games with Simultaneous Play	9
	1.4.1 Feedback Solutions under Open-Loop Information	13
	1.4.2 The Main Route: Feedback Games	15
	1.5 Stackelberg Games	17
2	Monopoly	24
	2.1 Monopoly à la Solow–Swan	24
	2.1.1 Solving the Optimal Control Problem	26
	2.1.2 Solving the Feedback Problem	28
	2.2 Polluting Emissions and Resource Extraction	30
	2.2.1 The Optimal Control Problem	32
	2.2.2 Dynamic Programming	35
	2.3 Advertising Campaigns	38
	2.4 Network Externalities	40
	2.4.1 The Original Static Model	41
	2.4.2 The Dynamic Problem	42
	2.5 Durable Good Monopoly, the Coase Conjecture and Optimal Durability	44
	2.5.1 The Finite Horizon Case	47
	2.5.2 Optimal Durability	49
3	Oligopoly	55
	3.1 Sticky Prices	56
	3.1.1 The Open-Loop Solution	57
	3.1.2 Linear Feedback Strategies	59
	3.1.3 Nonlinear Feedback Strategies	61

	3.1.4	Closed-Loop Memoryless Strategies	65
	3.1.5	Hyperbolic Market Demand	65
	3.2	Sluggish Demand	68
	3.2.1	The Open-Loop Solution and the Static Equilibrium	69
	3.2.2	The Linear Feedback Solution	69
	3.2.3	The Cartel Solution	70
	3.2.4	Comparing Equilibria	70
	3.3	Capacity Accumulation	72
	3.3.1	The Solow–Swan Game	73
	3.3.2	The Ramsey Game	77
	3.4	Price Competition with Adjustment Costs	81
	3.5	Durability and Addiction	82
	3.6	Conjectural Variations, Best Replies and Potential Functions	84
	3.7	Collusive Equilibria and Trigger Strategies	88
	3.8	Entry, Industry Dynamics and Empirical Research	89
4		Advertising	101
	4.1	Sales or Market Share Expansion	102
	4.2	Advertising for Goodwill	111
	4.3	Durables and Product Diffusion	116
5		Product Differentiation	125
	5.1	Horizontal Differentiation	126
	5.1.1	Informative Advertising	128
	5.1.2	Locations as State Variables	130
	5.1.3	Club Goods and Externalities	132
	5.2	Vertical Differentiation	133
	5.2.1	The Finiteness Property	134
	5.2.2	Dynamic Quality Competition	135
	5.2.3	Closed-Loop Memoryless Strategies	136
	5.2.4	Advertising under Vertical Differentiation	138
	5.3	Bidimensional Differentiation	140
6		Innovation	149
	6.1	Stochastic Innovation Races	149
	6.2	Deterministic R&D Games	154
	6.2.1	Process Innovation	154
	6.2.2	Product Innovation	161
	6.2.3	Process and Product Innovation	164
	6.2.4	Learning by Doing	169
	6.2.5	Technological Leadership and Entry Barriers	171
	6.2.6	More on Portfolio Races	173

7	The Environment and Natural Resources	181
	7.1 Unregulated Open-Loop Games	181
	7.2 Emissions Taxation and Green R&D	182
	7.3 Resource Extraction	189
	7.3.1 The Tragedy in Nonlinear Strategies	189
	7.3.2 Efficiency Issues	194
	7.3.3 Nonrenewable Resources and Cartel Behaviour	196
	7.4 Extensions	201
	7.4.1 Renewables	201
	7.4.2 Nonrenewables	203
8	International Trade	212
	8.1 Trade and Trade Policies	212
	8.1.1 Sticky Prices, Once Again	212
	8.1.2 Trade in the Ramsey Model	217
	8.1.3 Habit Formation	221
	8.2 Trade, the Environment and Natural Resources	223
	8.2.1 Trade and Pollution	223
	8.2.2 Globalization and Resource Extraction	225
	8.2.3 Trading Polluting Nonrenewables	227
9	Stackelberg Games	234
	9.1 (Un)controllability, Time (In)consistency and the Global Stackelberg Equilibrium	237
	9.2 Oligopoly Games	242
	9.3 An Advertising Game	243
	9.4 Supply Chain Coordination	244
	9.4.1 The Static Game	245
	9.4.2 The Differential Game	247
	9.5 Taxing Emissions in a Polluting Monopoly	249
	<i>Index</i>	255