

CONTENTS

List of Figures and Tables	xi
Acknowledgements	xvi
About this book	xvii
Introduction	xix
1. The most famous games	1
1.1 The coordination game	1
1.2 Choice of standards	2
1.3 The battle of the sexes	4
1.4 The chicken game	5
1.5 The prisoners' dilemma	7
1.6 Matching pennies	12
1.7 The ultimatum game	14
Exercises	17
2. Building the theory for simultaneous games	20
2.1 The normal form game	20
2.2 Towards a solution	22
2.3 Some propositions on maximin strategies, rationalizable strategies and Nash equilibria	27
2.4 Finding the Nash equilibria	29
2.5 Complications in finding the Nash equilibria	33
2.6 The payoffs of the game and the mixed strategies	36
Exercises	38
3. Static games	41
3.1 Fiscal battles	41
3.2 The median voter	42
3.3 The advantage of being indifferent	45
3.4 The broken windows theory	48
3.5 The independence of Sylvania	50
3.6 Cournot oligopoly	53
3.7 Bertrand oligopoly	56
3.8 Keeping up with the Joneses	58
Exercises	60

4. Dynamic games	62
4.1 The extensive form and backwards induction	62
4.2 The prisoners' dilemma with a previous contract	64
4.3 Subgame perfect Nash equilibrium	66
4.4 How to be credible (1) Eliminate strategies: Odysseus and the Sirens	69
4.5 How to be credible (2) Acquire costly compromises: Who enters?	70
4.6 How to be credible (3) Give up control: Separation of powers	72
4.7 The consequences of not being credible: The healthcare game	73
4.8 The payment of the debt	75
Exercises	77
5. Voting	81
5.1 Sincere and strategic voting	81
5.2 The manipulation of the agenda	82
5.3 Condorcet's paradox	83
5.4 Referendum with a minimum participation	83
5.5 The Borda count	84
5.6 Arrow's theorem	86
5.7 The theorems by Gibbard–Satterthwaite and May	87
5.8 The median voter theorem	87
5.9 I'll scratch your back and you'll scratch mine	90
5.10 How to know the truth: The Groves–Clarke mechanism	91
5.11 Do we know what the people want?	94
5.12 The discursive dilemma	95
5.13 A referendum in Catalonia	96
Exercises	99
6. Negotiation games	104
6.1 The model of offers and counteroffers	105
6.2 Impatience	107
6.3 Risk aversion	109
6.4 Negotiating with fanatics	110
6.5 Some discussion	112
6.6 An actual case: The hijacking of the <i>Alakrana</i>	113
6.7 The Coase theorem	114
6.8 When not to apply the Coase theorem	116
Exercises	118
7. Repeated games	120
7.1 The Christmas truce	120
7.2 A game repeated twice	121
7.3 Cooperation in the infinite and indefinite repetitions	123
7.4 Some technical details	126

7.5	Other strategies in the repeated game	128
7.6	The cooperation in the prisoners' dilemma repeated finitely many times	130
7.7	What experiments say	130
7.8	What the empirical data say	132
7.9	Altruism, reciprocity and evolution	133
7.10	Not a zero-sum game	134
7.11	Axelrod's tournament	134
	Exercises	136
8.	Agency problems: Adverse selection	138
8.1	The agency problem	138
8.2	The information sets	140
8.3	If you didn't have anything to hide you'd show me your e-mails	143
8.4	Adverse selection in a first agency problem	146
8.5	Adverse selection and public health systems	147
8.6	Other examples of adverse selection	151
8.7	Other types of adverse selection	152
8.8	Competition reveals information: When the principal has information about the agent	154
8.9	On Rawls' original position and the ex ante criterion	155
	Exercises	156
9.	Agency problems: Signaling and moral hazard	159
9.1	Signaling with a discrete variable	159
9.2	The empirical evidence of education as a signal	163
9.3	Signaling with a continuous variable and discrimination in the labor market	164
9.4	Moral hazard: Fixed payment or payment by performance?	166
9.5	Moral hazard: Co-payment, yes or no?	170
9.6	Moral hazard: Work in teams and cooperatives	174
	Exercises	175
10.	Seven applications of game theory	177
10.1	The battle of the Bismarck Sea	177
10.2	The nuclear war	178
10.3	You cannot use information without revealing it	183
10.4	You should bluff from time to time	184
10.5	There may not be weapons of mass destruction: Should we still attack?	187
10.6	Is free trade a prisoners' dilemma?	192
10.7	Negotiations between Greece and the Troika	194
	Exercises	198

CONTENTS

11. Seven more applications	200
11.1 The minority language	200
11.2 Pascal's wager	204
11.3 The surprise exam paradox	206
11.4 The sentence as deterrence	208
11.5 Solidarity versus charity	213
11.6 Single-round versus runoff elections	215
11.7 How to eliminate illegal parking	218
Exercises	220
12. Dynamics	223
12.1 Evolutionary dynamics: The hawk-dove game	223
12.2 Imitation dynamics: A segregation model	226
12.3 Best-reply dynamics: The emergence of language	228
12.4 No weakly dominated strategies dynamics: Self-inflicted injuries	232
12.5 Adaptive dynamics: Voluntary contribution to the provision of public goods	235
Exercises	237
13. Limited rationality and behavioral economics	240
13.1 Preferences changing with time: Which ones deserve priority?	240
13.2 Time inconsistency and energy saving	242
13.3 Irrationality due to the complexity of the election	244
13.4 Irrationality due to overconfidence	245
13.5 The age of majority	247
13.6 Indoctrination	253
13.7 Nudging: When to let others influence you	254
13.8 On other irrationalities that are not so irrational	255
13.9 Towards a behavioral theory	256
Exercises	257
14. Power indices	260
14.1 Cooperative and majority games	260
14.2 Power indices in majority games	262
14.3 Application of power indices to three parliaments	265
14.4 Games with many quotas	270
14.5 The distribution of power in the EU after Brexit	272
14.6 Power indices with abstention	275
Exercises	276
References	278
Index	282