Name____________________ Section_____

Question #2:

A. Consider two firms thinking about investing heavily in a new advertising campaign. If neither company revamps their advertising, they will continue to split the market at profits of $300 each. If only one company chooses to advertise, they will see their profits jump to $450, while the firm that is not advertising will lose business, reducing profits to $100. If both firms advertise, however, neither will gain an advantage and they'll continue to split that market, only now with higher costs. Each will earn $250.

Set this situation up as a normal form game. Is there a dominant strategy Nash Equilibrium? If so, what is it?

B. Briefly explain why a company in an oligopolistic market will face a "broken" demand curve.