

Microeconomics, Module 16, "The Theory of Games"

*Required reading for sixth edition:*

(The attached PDF file has better formatting.)

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{The Landsburg textbook is excellent. We say to read certain sections and to skip others. This does not mean that certain sections are better; it means that the homework assignments and exam problems are based on the sections that you must read for this course. Some of the skipped sections are fascinating, but they are not tested.}

Read section 12.1. Focus on Nash equilibrium, Pareto optimality, and dominant strategy. Know the *prisoner's dilemma* game for the final exam. The text uses three other games to illustrate the relations of dominant strategies to the possible outcomes (pigs in a box, battle of the sexes, and copycat games). You will not be tested on the specifics of these other games, but you must know the methods of game analysis.

Read from "Pareto Optima" through Sequential Games. Know the definition of a sequential game for the final exam. Read the illustration on pages 428-429 to understand how a sequential game works.

Read the summary on page 430. From the problem set on pages 431-433, work through the problems, which relate to the eight Jack and Jill games. You will get a similar game on the final exam, with questions like these problems.