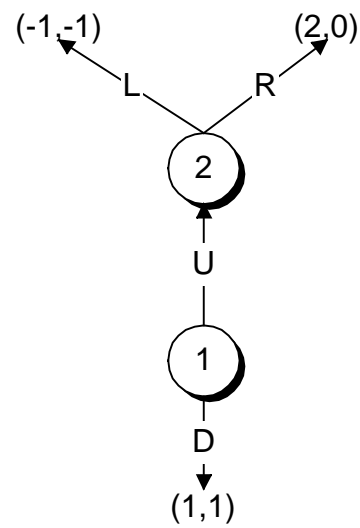


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Subgame Perfect Equilibrium

Selten Game Extensive Form



- decision nodes
- actions
- payoffs
- strategies
- normal or strategic form

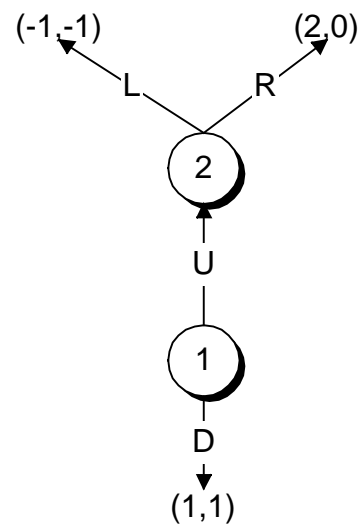
Normal Form of Selten Game

	L	R
U	-1,-1	2*,0*
D	1*,1*	1,1*

Nash equilibria: D,L and U,R

Subgame Perfection

Does D,L make sense?

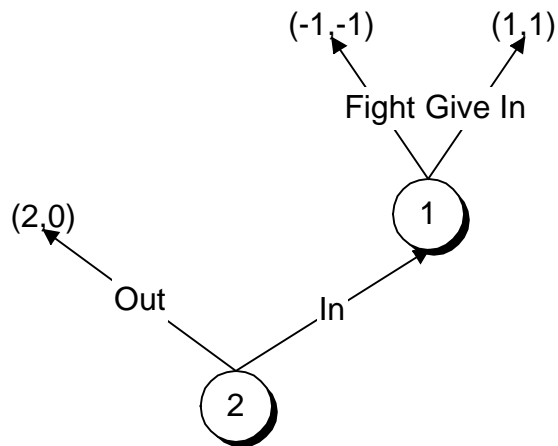


Subgame Perfection: a Nash equilibrium in each subgame

Backwards Induction: a method of finding subgame perfect equilibria by solving backwards from the end of the game

Applications

Chain Store



Quality Game

