ECO316: Applied Game Theory

Problem Set #4 Solutions

1. **Repeated Games and Enforcement Strategies:**

   (a) For Player A, if she cooperates, she receives 3 each period. If she deviates, she receives 4, then 0 in every subsequent period. Thus:

$$\begin{aligned} 3 &\geq (1-\delta)4 \\ 3 &\geq 4 - 4\delta \\ 4\delta &\geq 1 \\ \delta &\geq 1/4 \end{aligned}$$

   For Player B, if he cooperates, he receives 2 each period. If he deviates, he receives 4, then 1 in every subsequent period. Thus:

$$2 \geq (1-\delta)4 + \delta$$