Westinghouse and General Electric are competing on the newest version of clothes washer and dryer combinations. Two pricing strategies exist: price high or price low. The profit from each of the four possible combinations of decisions is given in the following payoff matrix:

|  |  |  |
| --- | --- | --- |
|  |  |  *Westinghouse’s price* |
|  |  | *High ($4000)* | *Low ($2000)* |
| **General Electric’s****price** | **High ($4000)** | *W: $10,000,000***GE: $10,000,000** | *W: $16,000,000***GE: $-4,000,000** |
| **Low ($2000)** | *W: $-4,000,000***GE: $16,000,000** | *W: $4,000,000***GE: $4,000,000** |
|  |  | Payoffs in dollars of profit. |

a) Which strategy offers both Westinghouse and General Electric the best financial outcome?

b) Does either firm have a dominant strategy? If yes, which firm and what strategy?

c) The Nash equilibrium is for Westinghouse to set its price at \_\_\_\_\_\_\_\_\_\_ and earn a profit of \_\_\_\_\_\_\_\_\_\_ and for General Electric to set its price at \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and earn a profit of \_\_\_\_\_\_\_\_\_\_\_\_\_.

d) Why do we see that the strategy that results is not the strategy that offers both players the best financial outcome?