**Question 5**

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The figure shows the payoff matrix for two producers of bottled water, Blue Spring and Purple Rain. Each has two strategies available to it: a high price and a low price. The dominant strategy for Purple Rain is to ...

|  |  |  |
| --- | --- | --- |
|  |  | always charge a low price. |
|  |  | always charge a high price. |
|  |  | always adopt the same strategy as Blue Spring. |
|  |  | Purple Rain does not have a dominant strategy. |

**Question 6**

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The figure shows the payoff matrix for two producers of bottled water, Blue Spring and Purple Rain. Each has two strategies available to it: a high price and a low price. Which outcomes are Nash equilibrium(s) in this game?

Answer

|  |  |  |
| --- | --- | --- |
|  |  | 1. Blue Spring : low and Purple Rain : high |
|  |  | Two Nas equilibriums:  1. Blue Spring : low and Purple Rain : high; and  2. Blue Spring : high and Purple Rain : low |
|  |  | there are none here |
|  |  | every outcome is a Nash equilibrium in this game |

**Question 7**

Your friend Iskander owns a coffee shop in a town with many competing coffee shops in a monopolistically competitive industry. One day Iskander tells you (a trusted economic advisor) that he is earning an economic profit and is currently setting his price equal to his marginal cost. Is Iskander producing the profit-maximizing amount of coffee? What should he do? [Hint:Wink draw a graph for a monopolistically competitive firm that makes profit.]