Given the following payoff matrix, ( a) indicate the best strategy for each firm. ( b) Why is the entry-deterrent threat by firm A to lower the price not credible to firm B? ( c) What could firm A do to make its threat credible without building excess capacity? (Refer to Tables Sheet)

**NOTE:**

P10(a):The strategies for firm A are low price and high price and the strategies for firm B are enter and don't enter. What is the best (optimal) strategy for each firm?

P10(b) is asking whether firm A would use the low price as a threat if firm B enters?

|  |  |  |  |
| --- | --- | --- | --- |
|  | | ***Firm B*** | |
| *Enter* | *Don’t Enter* |
| ***Firm A*** | *Low Price* | (3,-1) | (3,1) |
| *High Price* | (4,5) | (6,3) |