ECO 610
Problem Set #6
Fall 2019

Instructions: This is a practice assignment, and not to be turned in for grading.

1. The University of Kentucky and the University of Louisville are both considering entering the Executive MBA market. They are the only viable suppliers of EMBA's in the region, and both understand their own and their rival's position in the marketplace. UK can design and put together a program that is high quality, with a commensurate high price, or they can offer a lower quality EMBA that is also lower-priced. UL has a similar strategy choice. They have each independently estimated the economic payoffs to their alternative strategies, given the strategy choice of their rival. Since it takes time to plan curriculum and program delivery, and to recruit and admit students, this market interaction between UK and UL is best evaluated as a simultaneous-move game. The payoff matrix for this game is illustrated below:

| | | **U of L** | |
|---|---|---|---|
| **U of K** | | High price, high quality | Low price, low quality |
| | High price, high quality | **200, 40** | **350, 50** |
| | Low price, low quality | **280, 100** | **400, 80** |

What do you predict will be the outcome of this strategic game? Explain how you arrive at your answer, using solution strategies we discussed in class.

2. Now suppose that the Gatton College MBA Policy Committee understands the difference between static games and dynamic games, and that they can speed up the development and launch of UK's EMBA program and beat UL to the market, i.e. move first in this game and leave UL to react to their strategy choice. Alternatively, they can drag their feet and let UL be first into the market and then react to UL's strategy choice. What would you recommend that they do? Illustrate your answer by drawing two game trees corresponding to the two different scenarios, and explain what the outcome of each of the games will be.