

INSTRUCTOR: **DR. HSUEH-LING HUYNH**
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LECTURES: MTW 6-8:30PM PHO 205
(*There is a class meeting on F6/2 to substitute for the holiday on M5/29.)

TEXT: Avinash Dixit, Susan Skeath & David H. Reiley Jr.,
Games of Strategy (4th ed.), W.W. Norton 2015

OFFICE HOURS: MT 4:30-6PM RM.309 270 BAY STATE RD.

GRADE: Tests 30% (Test1 [15%] + Test2 [15%])
Exams 70% (Exam1 [30%] + Exam2 [40%])
*** No make-up tests or exams will be given. ***

COURSE DESCRIPTION:

The origins of modern game theory and its application to economics can be traced back to the 1830's, when the mathematician Antoine Augustin Cournot wrote his now famous model of duopoly, but for a century its development was fitful and slow. After the appearance of John von Neumann and Oskar Morgenstern's 'Theory of Games and Economic Behavior' in 1944, interest and research in the subject underwent a phase of rapid and extensive growth. It is now regarded by economists and social scientists as a central theory of human strategic interaction, and in recent years it has even entered the conversations of an educated public.

In this introductory course, we will study the logical and analytic underpinnings of game theory. From the rigorous formulation of models of interaction and the concept of strategies, we will move on to the positive and normative assertions of game theory – Nash Equilibrium, Iterated Deletion of Dominated Strategies, Rationalizability, Sub-game Perfection, Evolutionary Stability, etc., and examine assumptions about human decision and social institutions that may support these assertions. Many of these ideas have been motivated by economic phenomena, which still provide the best illustrations of game theory as well as inspirations for game theorists.

It is also well known that game theory frequently makes predictions which appear to be at odds with observed human behavior, whether seen in natural settings or deliberate experiments. We will discuss some of these findings, and may occasionally engage in experimentation ourselves. However, even when we feel that game theory fails to deliver empirically sound predictions or prescriptions, a useful way to understand why it may be so is to scrutinize its assumptions and logic as closely and deeply as we can.

Being an advanced undergraduate course intended for economists, the student is assumed to come equipped with basic knowledge of economic theory and mathematics (including some calculus and probability theory), but most important of all is his/her ability and willingness to think clearly and logically.

COURSE SCHEDULE: See attached.

ACADEMIC CONDUCT: It is the student's responsibility to read, understand and observe the *Academic Conduct Code* (<http://www.bu.edu/academics/resources/academic-conduct-code/>, also available from CAS Advising and Student Academic Life or the BU Summer Term Office)., Cases of suspected misconduct will be referred to the Dean's Office. Furthermore, acts of plagiarism or cheating will be penalized with failing grades.

COURSE SCHEDULE Details of this schedule are subject to change. Registered students can log into the course website at <http://learn.bu.edu/>. You should visit this website frequently to get the latest course schedule, check announcements, obtain class material and verify your personal grading record.

- ◆ LECTURE complements READING and self-study. They are not substitutes. To do well in this course, you must understand both thoroughly.
 - ◆ HOMEWORK problems are specified as follows: “S2.1” refers to Solved Exercise S1 at the end of Chapter 2 of Dixit-Skeath-Reiley, while U2.3 refers to the Unsolved Exercise U3 in the same chapter. “S3.1- 3.4” means “S3.1, S3.2, S3.3 and S3.4”. Additional problems may be given out in class from time to time.
 - ◆ SOLUTION to the homework problems, tests and exams will be posted on the course website. But you will not benefit from the solutions unless you have worked seriously on the problems.
 - ◆ A TEST will focus on homework problems assigned since the last test or exam. It is given in the last 45 minutes of class.
 - ◆ An EXAM will test your comprehensive understanding of the course material up to the time of the exam.
- (!!) **ATTENDANCE:** This course is very intensive and each class is almost equivalent to one week’s instruction during a regular semester. *Regular attendance is therefore essential.* Also, there will be *no make-up for missed tests or exams.*

DATE	LECTURE	READING	HOMEWORK
T5/23	Game Theory and Strategic Interactions Model of Strategic Interactions: (1) Game Form and Payoffs (2) Predicting Play and Giving Strategic Advice	Ch. 1, 2	S2.1-2.2, U2.3-2.4
W5/24	Extensive-form/ Sequential-move Games & Backward Induction Backward Induction and the problems it raises Model of the Decision Maker: (1) Individual preference and optimizing behavior (2) Knowing the preferences and rationality of others What is a Strategy? Actions by self and Beliefs about others	Ch. 3	S3.1-3.4 U3.5-3.10
M5/29	<Holiday: No Class>		
T5/30	Strategic-form (Normal-form)/Simultaneous-move Games & Nash Equilibrium Normal-form Games with Complete Information Nash Equilibrium and the problems it raises	Ch. 4	S4.1-4.7, U4.1-4.7 S4.8-4.12
W5/31	Dominant and Dominated Strategies Iterated Deletion of Dominated Strategies		U4.8-4.12
F6/2	<Substitute Monday Schedule> Relationship between Games in Extensive and Strategic Forms Maximin and Rationalizable Strategies	Ch. 5	S5.4-5.6, U5.5-5.7

DATE	LECTURE	READING	HOMEWORK
M6/5 <u>TEST 1</u>	Game Theory and Economic Behavior Continuous strategies and best-response functions <i>Test covers homework problems from 5/23 through 5/31</i>	Ch. 5	S5.1-5.3, S5.7-5.9, U5.8-5.10
T6/6	Cournot's Model of Oligopoly	Review relevant parts of your Intermediate Microeconomics textbook	
W6/7	Bertrand and Hotelling's Models of Oligopoly Economic Externalities and Collective Actions Public Decisions and Voting Auctions Rubinstein's Bargaining Model <i>Exam covers course material through 6/7</i>	Ch. 11 Ch. 15 Ch. 16 Ch. 17	S11.1, S11.4, U11.3, U11.5 S15.1-S15.2, U15.3, U15.5 S16.2-16.4, U16.2-16.4 S17.2, U17.1-17.2
M6/12 <u>EXAM 1</u>	Extensive-form Games with Imperfect Information Multi-stage Games, Inferences about the Past Subgame Perfect Equilibrium and Sequential Rationality Mixed Strategy Mixed Strategies: Tax Evasion and Random Audits Interpretations of Mixed Strategies Correlated Equilibrium Strategic-form Games with Incomplete Information Decision under Uncertainty: (1) Expected Payoffs (2) Prior Beliefs and Factual Information	Ch. 6	S6.1-6.5, U6.1-6.5 S6.6-6.10, U6.6-6.10, U6.11-6.12
W6/14	Promises and Threats: Are they credible? Signaling and Screening Brinkmanship and Commitment	Ch. 7	S7.1-7.10 U7.1-7.12
M6/19	Repeated Interaction and Social Interaction Reward and Punishment <i>Test covers homework problems from 6/13 through 6/20</i>	Ch. 8, 9	S8.4-8.8, U8.9-8.10
T6/20	Repeated Games & Mutual Sanction Social Norms & Third-party Sanction	Ch. 14	S9.2-9.4, U9.2-9.4 U8.11 S14.1, S14.4, U14.1
W6/21 <u>TEST 2</u>	Evolution of Behavior and Belief Population Dynamics: (1) Replication & Statistical Equilibrium (2) Random Perturbation & Selection Evolutionary Stability	Ch. 10	S10.1-10.2, S10.4, S10.6
M6/26			U10.1, U10.3, U10.4
T6/27		Ch. 12	S12.2-12.3, S12.7-12.8 S12.9-12.10 U12.1, U12.2, U12.6, U12.8
W6/28 <u>EXAM 2</u>	<i>Exam covers material from the whole course</i>		