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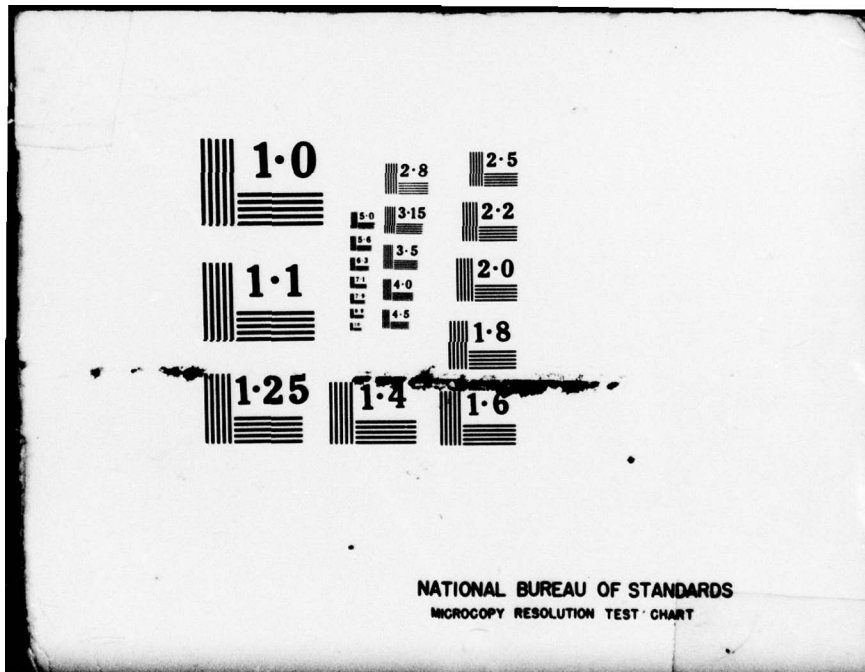
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ON SOLUTIONS OF NON-COOPERATIVE GAMES: AN AXIOMATIC APPROACH. (U)
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MRC Technical Summary Report #1849

ON SOLUTIONS OF NON-COOPERATIVE GAMES:
AN AXIOMATIC APPROACH

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Significance and Explanation

In this paper, we study solutions of non-cooperative games that are played just once.

A non-cooperative game consists of a set of n players, each with an associated finite set of strategies; also, corresponding to each player i there is a payoff function u_i which maps the set of all n -tuples of pure strategies into real numbers. The non-cooperative aspect of the game is that the players are not allowed to communicate with each other. This rules out collaboration or the formation of coalitions. Non-cooperative games have been used to model various situations that arise in military, political and economic contexts.

The main ingredient of our theory is the concept of rationalizing a set of strategies for every player of a game. We state an axiom based on this concept that every non-cooperative game is required to satisfy. We compare our solution with that proposed by John Nash in terms of "equilibrium points".

Not all games have solutions (in our sense). In such cases, players are assumed to have recourse to a "standard of behavior". Some standards of behavior are examined and discussed.

The responsibility for the wording and views expressed in this descriptive summary lies with MRC, and not with the author of this report.

ON SOLUTIONS OF NON-COOPERATIVE GAMES: AN AXIOMATIC APPROACH

Prakash P. Shenoy

1. Introduction

In this paper, we study solutions of non-cooperative games. In a non-cooperative game, absolutely no preplay communication is allowed between the players. The theory of non-cooperative games, in contrast with cooperative games, is based on the absence of coalitions in that it is assumed that each participant acts independently without collaboration or communication with any of the others. Since in repeated plays of a game it is possible for players to "communicate" or signal via their choice patterns on previous plays[†] we shall avoid this feature of a non-cooperative game by only considering games that are played just once. Our objective is to study strict non-cooperative games and although this may be a severe restriction on the class of realistic games, like Luce and Raiffa [6, pp. 105], we feel that

"...the realistic cases actually lie in the hiatus between strict non-cooperation and full cooperation but that one should first attack these polar extremes."

Besides, in many of the games that arise in the military and political contexts, the players often have a single-play orientation.

Except for this difference, we make the usual assumptions of rationality and complete information, i.e., all players are "rational"[‡] and each player has complete information of this fact and of his own and other players' utility function.

[†] See Luce and Raiffa [6, pp. 97-102] for a discussion of the temporal repetition of the prisoner's dilemma.

[‡] Here we mean in the usual von Neumann and Morgenstern sense. Later in Section 3, we will look at this assumption more critically and study its implications.

2. Formal Definitions and Terminology

In this section we will define the basic concepts in the non-cooperative theory. The non-cooperative idea will be implicit, rather than explicit, below.

An n-person game is a set of n players denoted by $N = \{1, \dots, n\}$, each with an associated finite set of pure strategies; and corresponding to each player, i , a von Neumann-Morgenstern utility function u_i , which maps the set of all n -tuples of pure strategies into real numbers. By the term n -tuple, we mean a set of n items with each item associated with a different player. A mixed strategy of player i will be a probability distribution on his set of pure strategies. We write $s^i = \sum_{\alpha} c_{i\alpha} \pi_{i\alpha}$ with $c_{i\alpha} \geq 0$ and $\sum_{\alpha} c_{i\alpha} = 1$ to represent such a mixed strategy, where the $\pi_{i\alpha}$'s are the pure strategies of player i . The von Neumann-Morgenstern utility function u_i used in the definition of a finite game above has a unique extension to the n -tuples of mixed strategies which is linear in the mixed strategy of each player (n -linear). This extension we will also denote by u_i , writing $u_i(s^1, s^2, \dots, s^n)$. I.e.,

$$u_i(s^1, s^2, \dots, s^n) = \sum_{\alpha_1} \dots \sum_{\alpha_n} c_{1\alpha_1} \dots c_{n\alpha_n} u_i(\pi_{1\alpha_1}, \dots, \pi_{n\alpha_n}).$$

We shall use the symbols i, j, k for players and α, β, γ to indicate various pure strategies of a player. The symbols s^i, t^i, r^i will indicate mixed strategies; $\pi_{i\alpha}$ will denote the i^{th} player's α^{th} pure strategy, etc. We shall write \bar{s}, \bar{t} to denote an n -tuple of mixed strategies. For convenience we shall use the substitution notation $(\bar{s}; t_i)$ to denote $(s^1, \dots, s^{i-1}, t^i, s^{i+1}, \dots, s^n)$ where $\bar{s} = (s^1, \dots, s^n)$.

An n -tuple \bar{s} is a Nash equilibrium point if and only if for every i

$$u_i(\bar{s}) = \max_{\text{all } t^i, s} [u_i(\bar{s}; t^i)].$$

Thus an equilibrium point is an n -tuple \bar{s} such that each player's mixed strategy maximizes his payoff if the strategies of the others are held fixed. In an extremely elegant proof, Nash [8] has shown that every non-cooperative game with finite sets of pure strategies has an equilibrium point. A strategy s^i is player i 's equilibrium strategy if the n -tuple $(\bar{t}; s^i)$ is an equilibrium point for some n -tuple \bar{t} .

A strategy r^i is player i 's maximin strategy if and only if for all n -tuples \bar{s} ,

$$u_i(\bar{s}; r^i) \geq \max_{\text{all } s^i, s} \min_{\text{all } s^1, \dots, s^{i-1}, s^{i+1}, \dots, s^n} [u_i(s^1, \dots, s^n)].$$

The quantity on the right side of the above inequality is called player i 's maximin value

and denoted by v_i^m .

For 2-person games only, a strategy t^i is player i 's minimax strategy if and only if for all player j 's strategies, s^j , $j \neq i$

$$u_j(t^i, s^j) \leq \min_{\text{all } s^i, s} \max_{\text{all } s^j, e} \dots$$

We say that a mixed strategy s^i uses pure strategy $\pi_{i\alpha}$ if $s^i = \sum_{\beta} c_{i\beta} \pi_{i\beta}$ and $c_{i\alpha} > 0$. If $\bar{s} = (s^1, \dots, s^n)$ and s^i uses $\pi_{i\alpha}$, we also say that \bar{s} uses $\pi_{i\alpha}$. Let s^i and r^i be two distinct mixed strategies for player i . We say s^i strongly dominates r^i if $u_i(\bar{t}; s^i) > u_i(\bar{t}; r^i)$ for every \bar{t} . This amounts to saying that s^i gives player i a higher payoff than r^i no matter what the strategies of the other players are. To see whether a strategy s^i strongly dominates r^i , it suffices to consider only pure strategies for the other players because of the n -linearity of u_i . Also, we say s^i weakly dominates r^i if $u_i(\bar{t}; s^i) \geq u_i(\bar{t}; r^i)$ for all \bar{t} and strict inequality holds for at least one \bar{t} .

Based on the concept of an equilibrium point, Nash defined several "solutions" of non-cooperative games. A game is said to be Nash solvable if its set S of equilibrium points satisfies the condition

$$(2.1) \quad (\bar{t}; r^i) \in S \text{ and } \bar{s} \in S \Rightarrow (\bar{s}; r^i) \in S.$$

This is called the interchangeability condition. The Nash solution of a Nash solvable game is its set S of equilibrium points. A game is strongly Nash solvable if it has a Nash solution, S , such that for all i 's

$$\bar{s} \in S \text{ and } u_i(\bar{s}; r^i) = u_i(\bar{s}) \Rightarrow (\bar{s}; r^i) \in S$$

and then S is called a strong Nash solution. If S is a subset of the set of equilibrium points of a game and satisfies condition (2.1); and if S is maximal relative to this property, then we call S a Nash subsolution. Let S be the set of all equilibrium points of a game. Define

$$v_i^+ = \max_{\bar{s} \in S} [u_i(\bar{s})], \quad v_i^- = \min_{\bar{s} \in S} [u_i(\bar{s})].$$

If $v_i^+ = v_i^-$, we write $v_i = v_i^+ = v_i^-$. v_i^+ is called the Nash upper value to player i of the game; v_i^- the Nash lower value; and v_i the Nash value, if it exists.

Note that a non-cooperative game does not always have a Nash solution, but when it does, the Nash solution is unique. Strong Nash solutions are Nash solutions with special properties. Nash subsolutions always exist and have many of the properties of Nash solutions,

but lack uniqueness. A Nash subsolution, when unique, is a Nash solution.

Apart from these "solutions", Luce and Raiffa [6, Ch. 5] have defined "solution in the strict sense", "solution in the weak sense" and "solution in the complete weak sense". For reasons of space, we do not repeat these definitions here.

A natural question that arises is: In what sense are these concepts, solutions of non-cooperative games? I.e., what constitutes a solution of a non-cooperative game? These questions are discussed in the subsequent sections.

3. Solutions of Non-Cooperative Games.

What do we mean by a solution of a non-cooperative game? Let Γ be a n -person non-cooperative game. Consider player i 's position in this game. He is informed about the pure strategy sets of all the players. He is also aware of the von Neumann-Morgenstern utilities of all players associated with every possible n -tuple of pure strategies. The only other information he has about the other players is that they are rational players. The game is to be played just once. Given all these facts, which strategy should he play in order to maximize his utility? In this situation, if a logical analysis of the problem requires player i to play a particular strategy or a strategy from a particular set of strategies, such a course of action can be called a solution for player i . On the other hand, a logical analysis of the situation under the given set of information may not lead to any particular conclusion, in which case we can say that for the given game, there is no solution for player i . In the latter case, assuming that not playing the game is not one of the options that player i has, player i is still faced with the question of having to pick a strategy. We will assume that in this case player i recurses to a "standard of behavior" (as distinct from a solution) to pick a strategy from the set of all his strategies. Which standard of behavior player i should opt for is then clearly a meta-game theoretical question and beyond the scope of game theory.

We will now attempt to define a solution for a non-cooperative game (if one exists). Consider again player i 's situation in a game. If he had prior information about the strategies that his opponents would employ, his problem of selecting a strategy would simplify to finding the strategy which would maximize his utility subject to the restriction that each

of his opponents play a fixed strategy which is known to player i . However, player i has no such prior information. The only clue he has about the actions of the other players is the fact that they are rational players. What does the assumption of rationality imply about players' behavior?

One implication is that if for some player k , his pure strategy $\pi_{k\alpha}$ is strongly dominated by another pure strategy $\pi_{k\beta}$, then player k has never any incentive to play a mixed strategy that uses the pure strategy $\pi_{k\alpha}$. This is because, no matter what strategies the other players play, player k can do better by playing instead the mixed strategy obtained by substituting $\pi_{k\beta}$ in place of $\pi_{k\alpha}$. Thus a given game can be reduced by the elimination of all strongly dominated pure strategies of all the players. The reduced game is again examined for strongly dominated pure strategies and the process continued until no player has a strongly dominated pure strategy.

What else can we deduce from the assumption of rationality? We examine this first for 2-person games. If player i plays a mixed strategy s^{*i} , then the best reply for the other player, j , is to play any strategy from the set

$$(3.1) \quad M_j(s^{*i}) = \{s^j : u_j(s^j, s^{*i}) = \max_{s^j} u_j(s^j, s^{*i})\}.$$

Similarly, if player j plays a mixed strategy s^{*j} , the best reply for player i is to play a strategy from the set $M_i(s^{*j})$ defined as in (3.1). Suppose, on the basis of the assumption of rationality, we can rationalize a unique strategy s^{*i} for player i . I.e., we suppose that, since player i is a rational player, he is expected to play a particular strategy s^{*i} (and no other). Then, since player j is also a rational player, we can rationalize the set of strategies $M_j(s^{*i})$ for player j . I.e., player j can be expected to play any strategy from the set $M_j(s^{*i})$. Then, if our original assumption of rationalizing s^{*i} for player i is to be valid, we must have

$$\{s^{*i}\} = M_i(s^j) \quad \forall s^j \in M_j(s^{*i}).$$

In general, we may be able to rationalize a (unique) set of strategies for each player. We make the following formal definition for a 2-person game. A nonempty set of strategies X^i can be rationalized for player i if and only if it is the unique set satisfying the following two conditions:

$$(3.2) \quad \exists X^j \text{ such that } X^j = M_j(s^i) \quad \forall s^i \in X^i$$

$$(3.3) \quad X^i = M_i(s^j) \quad \forall s^j \in X^j .$$

The following proposition is an obvious consequence of the above definition.

Proposition 3.1. If X^i can be rationalized for player i , then X^j given by (3.2) can be rationalized for player j .

Proof: Since conditions (3.2) and (3.3) are valid, we only need to show that X^j is a unique set satisfying these conditions. This follows from the fact that X^i is a unique set satisfying these conditions.

Q.E.D.

The concept of rationalizing a set of strategies for each player in a 2-person game can easily be generalized to a n-person game. Let

$$M_i(s^1, \dots, s^{i-1}, s^{i+1}, \dots, s^n) = \{t^i : u_i(\bar{s}; t^i) = \max_{\text{all } r^i, s^i} [u_i(\bar{s}; r^i)]\}$$

where $\bar{s} = (s^1, \dots, s^n)$.

Let Γ be an n-person game. Let $X = (X^1, \dots, X^n)$ be an n-tuple of nonempty sets of strategies. We say X can be rationalized for Γ (or X^i can be rationalized for player $i, i = 1, \dots, n$) if X is the unique n-tuple satisfying for all $i \in N$

$$X^i = M_i(s^1, \dots, s^{i-1}, s^{i+1}, \dots, s^n) \quad \forall (s^1, \dots, s^{i-1}, s^{i+1}, \dots, s^n) \in X^1 \times \dots \times X^{i-1} \times X^{i+1} \times \dots \times X^n .$$

Thus we see that the concept of rationalizing an n-tuple of sets of strategies for a game is a minimal condition that every solution of a non-cooperative game should satisfy, i.e., it is a "necessary" condition. We will now attempt to show that it is, in a sense, a "sufficient" condition as well.

Consider a 2-person game such that we can rationalize X^i for player i and X^j for player j . Player i 's situation can be summarized as in Table 1. Hence player i has a reasonable justification for playing a strategy from the set X^i . Also if player j anticipates this action of player i , his subsequent action merely reinforces player i 's choice of picking a strategy from X^i . A similar argument can be made for player i if the game has n players.

If player i picks a strategy from the set	and	Assuming that player j picks a strategy from the set	then	The utility payoff to player i is
x^i		x^j		the best that player i can hope for
		$(x^j)^c$		indeterminate
$(x^i)^c$		x^j		worse off than if player i had played a strategy from x^i
		$(x^j)^c$		indeterminate

Table 1

We have stated two implications of rationality. We can consider these as axioms that a solution of a non-cooperative game should always satisfy (if one exists). For example,

Axiom 0: A non-cooperative game may or may not have a solution.

Axiom 1: If a non-cooperative game has a solution and \bar{s} is an n -tuple of strategies in the solution, then \bar{s} does not use any strongly dominated strategy.

Axiom 2: If a non-cooperative game has a solution, then it should be rationalizable for the game.

It is clear from the definitions that a rationalizable set cannot contain a strategy that uses a strongly dominated strategy. Hence Axiom 2 implies Axiom 1. In the next section, we examine Nash's various solutions and see how they relate to our axioms.

4. The Role of Equilibrium Points in Solutions of Non-Cooperative Games.

The concept of a Nash equilibrium point is the basic ingredient of Nash's theory of non-cooperative games. We will show that it also plays an important role in our theory.

Proposition 4.1. Let X be rationalizable for Γ . Then $\bar{s} \in X \Rightarrow \bar{s}$ is a Nash equilibrium point.

The proof follows from the definition of a rationalizable set for Γ . We now examine Nash's theory of non-cooperative games and see how they relate to our axioms.

Theorem 4.2: Let Γ be a strongly Nash solvable game. Then the strong Nash solution S is rationalizable for Γ .

Proof: Let $X^i = \{r^i : (\bar{s}; r^i) \in S \text{ for some } \bar{s}\}$. Clearly

$$X^i \subset M_i(s^1, \dots, s^{i-1}, s^{i+1}, \dots, s^n) \forall (s^1, \dots, s^{i-1}, s^{i+1}, \dots, s^n) \in X^1 \times \dots \times X^{i-1} \times X^{i+1} \times \dots \times X^n.$$

Since Γ is strongly Nash solvable,

$$\bar{s} \in S, u_i(\bar{s}; r^i) = u_i(\bar{s}) \Rightarrow (\bar{s}; r^i) \in S.$$

So we have

$$X^i \supset M_i(s^1, \dots, s^{i-1}, s^{i+1}, \dots, s^n) \forall (s^1, \dots, s^{i-1}, s^{i+1}, \dots, s^n) \in X^1 \times \dots \times X^{i-1} \times X^{i+1} \times \dots \times X^n.$$

Hence

$$X^i = M_i(s^1, \dots, s^{i-1}, s^{i+1}, \dots, s^n) \forall (s^1, \dots, s^{i-1}, s^{i+1}, \dots, s^n) \in X^1 \times \dots \times X^{i-1} \times X^{i+1} \times \dots \times X^n.$$

Hence $X = (X^1, \dots, X^n)$ is rationalizable for Γ . But $X = S$. Hence S is rationalizable for Γ . Q. E. D.

Theorem 4.2 states that strong Nash solvability is a sufficient condition for the existence of a rationalizable set and that the rationalizable set coincides with the strong Nash solution. However, the surprising result is that strong Nash solvability is not a necessary condition for the existence of a rationalizable set. The following example illustrates this fact.

Example 4.1: Consider the 2-person game represented by the matrix given below

		2	
		β_1	β_2
	α_1	(1,3)	(1,3)
1:	α_2	(0,0)	(2,2)

The equilibrium points of this game are (α_1, β_1) and (α_2, β_2) . These are not interchangeable, hence the game is not even Nash solvable. However, it can easily be shown that $\{(\alpha_2, \beta_2)\}$ is rationalizable for the game. \square

Since the game in Example 4.1 is not Nash solvable, Nash solvability is not a necessary condition for the existence of the rationalizable set. Moreover, Nash solvability is not a sufficient condition for the existence of a rationalizable set. This is shown in the next example.

Example 4.2. Consider the 2-person game represented by the matrix given below

		2	
		β_1	β_2
1	α_1	(5, -3)	(-4, 4)
	α_2	(-5, 5)	(3, -4)

This game has a unique equilibrium point $(\frac{9}{16} \alpha_1 + \frac{7}{16} \alpha_2, \frac{7}{17} \beta_1 + \frac{10}{17} \beta_2)$. Thus the game is Nash solvable. The Nash value of the game to player 1 is $-5/17$ and to player 2 is $1/2$. It can easily be shown that the rationalizable set does not exist for this game. Hence from our point of view, the game has no solution. To see why Nash's solution is not really a solution of this game, consider player 2's position. If he plays his equilibrium strategy, the maximum he can get is his Nash value, $1/2$, provided player 1 also plays his equilibrium strategy. However, player 2 can guarantee his Nash value irrespective of player 1's actions by simply playing the maximin strategy $(\frac{1}{2} \beta_1 + \frac{1}{2} \beta_2)$. Moreover, if player 2 plays his equilibrium strategy and player 1 plays his maximin strategy $(\frac{8}{19} \alpha_1 + \frac{9}{17} \alpha_2)$ (to guarantee his Nash value, $-5/17$), player 2 actually gets $107/289$ which is less than his Nash value!

On the subject of rational behavior, von Neumann and Morgenstern [9] write:

"... the rules of rational behavior must provide definitely for the possibility of irrational conduct on the part of others... . If that should turn out to be advantageous for them - and quite particularly, disadvantageous to the conformists then the above "solution" would seem very questionable".

Hence it is not clear why player 2 should play his equilibrium strategy. \square

Next, we study the implications of our axioms when applied to the special and well known case of 2-person zero-sum games. We say a 2-person zero-sum game has a saddle point if it has an equilibrium point in pure strategies. I.e. if $\exists \pi_{i\alpha}, \pi_{j\beta}$ such that $(\pi_{i\alpha}, \pi_{j\beta})$ is an equilibrium point.

Proposition 4.3. Let Γ be a 2-person zero-sum game. The game has a rationalizable set if and only if Γ has a saddle point. In such a case, the rationalizable set of each player consists precisely of the respective equilibrium strategies.

Proof: If Γ has a saddle point, then it is strongly Nash solvable and the result follows from Theorem 4.2. If Γ has no saddle point, then there exists a unique Nash equilibrium in mixed strategies. If player i plays his equilibrium strategy, then player j can play any pure strategy used in his equilibrium strategy and still get his Nash value of the game and vice-versa. Hence \exists no rationalizable set for the game.

Q.E.D.

Thus, as per our theory, a 2-person zero-sum game with no saddle point has no solution. This is in sharp contrast with the universally accepted theory of von Neumann and Morgenstern [9] that the equilibrium point always constitutes a solution of a 2-person zero-sum game.

Although we agree that there are many other reasons why a player may want to play the equilibrium strategy[†], we feel that it is not necessarily a consequence of the assumption of rationality of the players.

Since the rationalizable set does not always exist, we cannot have a general existence result. However, this should not be interpreted negatively. I.e. a lack of a general existence result is not a "defect" in our theory. It is merely an outcome of the "lack of information" that a player has in playing certain non-cooperative games. I.e. some games, those for which a rationalizable set does not exist, do not give sufficient insight into the behavior of players assuming only rationality. We do not believe that the conditions imposed by Axiom 2 are too strong and must therefore be modified to admit existence for all games. We feel that Axiom 2 is a minimal condition that every solution should satisfy. For a game that has no solution (in our sense), a player can recourse to a "standard of behavior". These are discussed in the next section.

[†] Some of these reasons are discussed in Section 5 of this paper

5. Some Standards of Behavior.

Let Γ be a game that has no rationalizable set. Consider the position of a player, i . He has to pick a strategy to maximize his utility. His job is complicated by the fact that since the rationalizable set does not exist, he has no inkling of the strategies that the other players are going to pick. Some of the possible actions that he can take are as follows.

Undominated Strategies

The fact that the game has no rationalizable set does not exclude the fact that some player(s) may have strongly dominated pure strategies. If this is the case, it is safe to assume that a player will never use a strongly dominated pure strategy in any mixed strategy and thus the game can be reduced by the elimination of all strongly dominated pure strategies. The reduced game is again examined for strongly dominated pure strategies and the process continued until no player has a strongly dominated pure strategy. At the end of this reduction process, since the game has no rationalizable set, there will be at least 2 players each of whom will have at least 2 pure strategies.

Let Γ be a game with no rationalizable set and no strongly dominated pure strategy. Suppose some player, j , has a weakly dominated pure strategy. Since player j can do as well (if not better) by substituting the weakly dominated pure strategy by the dominating pure strategy in any mixed strategy that uses such a weakly dominated strategy, it is conceivable that he will never use his weakly dominated pure strategy in any mixed strategy. Thus the game can be reduced by the elimination of all weakly dominated strategies. By the same reasoning, the reduced game is again examined for weakly dominated strategies and the process continued until no player has a weakly dominated strategy.

Maximin Strategies

In a finite game, maximin strategies always exist for all players. Let Γ be a game for which no rationalizable set exists. Also suppose that no player has a dominated pure strategy. For such games, since a player has no idea of the strategies that the other players will play, he may decide to protect himself as much as possible by playing the maximin strategy. Thus by playing a maximin strategy, a player, i , is assured of getting at least his maximin value v_i^m irrespective of the actions of the other players.

For 2-person zero-sum games, a player's maximin strategy is also his minimax strategy since

$$\begin{aligned} \max_{s^i} \min_{s^j} [u_i(s^i, s^j)] &= \max_{s^i} \min_{s^j} [-u_j(s^i, s^j)] \\ &= \max_{s^i} \{- \max_{s^j} [u_j(s^i, s^j)]\} \\ &= -(\min_{s^j} \max_{s^i} [u_j(s^i, s^j)]) . \end{aligned}$$

Also since for all 2-person zero-sum games,

$$v_i^m = -v_j^m$$

a player's maximin strategy is also his equilibrium strategy. Thus, in a 2-person zero-sum game, there is a strong motivation for a player to play his maximin (which is also his minimax and equilibrium) strategy. However, as mentioned before, we are not willing to subscribe to the theory that this constitutes a solution of the game.

In general, for 2-person non-zero-sum games, maximin strategies are distinct from equilibrium strategies and often the maximin value of a player is equal to the Nash value (when it exists). In such cases we feel that it is better in some respects for a player to play his maximin strategy instead of his equilibrium strategy.

Minimax Strategies in 2-Person Games

For 2-person non-zero-sum games, minimax strategies are usually distinct from maximin strategies. However they often coincide with equilibrium strategies. Since in a non-zero-sum game, the utility of an outcome for a player has no relation to the utility of the same outcome to his opponent, we cannot see any motivation for a rational player to play his minimax strategy (on its' merits alone).

Equilibrium Strategies

Since equilibrium points always exist, every player i has a nonempty set S_i of equilibrium strategies. The concept of an equilibrium strategy alone is not strong enough to qualify even as a standard of behavior. E.g., for games that are not Nash solvable, it makes no sense for a player to play an equilibrium strategy because the resulting outcome may not be an equilibrium point. For games that are Nash solvable (but not strongly Nash solvable) equilibrium strategies may qualify as a standard of behavior.

We end this section by discussing a 2-person non-zero-sum game in detail.

Example 5.1. Consider the 2-person game represented by the matrix given below.

		2	
		β_1	β_2
1	α_1	(1,2)	(-1,-4)
	α_2	(-4,-1)	(2,1)

This game has no dominated strategies and also no rationalizable set. There are 3 equilibrium points, (α_1, β_1) , (α_2, β_2) and $(\frac{1}{4}\alpha_1 + \frac{3}{4}\alpha_2, \frac{3}{8}\beta_1 + \frac{5}{8}\beta_2)$. Since these are not interchangeable, the game is not Nash solvable. The minimax strategy for player 1 is $(\frac{1}{4}\alpha_1 + \frac{3}{4}\alpha_2)$ and for player 2 is $(\frac{3}{8}\beta_1 + \frac{5}{8}\beta_2)$. The maximin strategy for player 1 is $(\frac{3}{4}\alpha_1 + \frac{1}{4}\alpha_2)$ and for player 2 is $(\frac{5}{8}\beta_1 + \frac{3}{8}\beta_2)$. The maximin value for player 1 is $-1/4$ and for player 2 is $-1/4$. A summary of the various options open to player 1 and 2 and their consequences is shown in Table 2. If player 1 plays his equilibrium strategy $(\frac{1}{4}\alpha_1 + \frac{3}{4}\alpha_2)$ and player 2 plays his maximin strategy (to guarantee himself a payoff of $-1/4$), then player 1 gets only $-1/4$ whereas he can guarantee himself a payoff of $-1/4$ by playing his maximin strategy. Player 2 is in an identical situation. We let the reader judge for himself which strategy he would choose if he had to play the above game just once in the position of player 1 (or player 2) against a rational (but otherwise unknown) opponent.

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<u>2</u>		equilibrium	equilibrium	equilibrium and minimax	maximin
		β_1	β_2	$3/8 \beta_1 + 5/8 \beta_2$	$5/8 \beta_1 + 3/8 \beta_2$
equilibrium	α_1	(1,2)	(-1,-4)	(-1/4,-7/4)	(1/4,-1/4)
equilibrium	α_2	(-4,-1)	(2,1)	(-1/4,1/4)	(-7/4,-1/4)
equilibrium and minimax	$1/4 \alpha_1 + 3/4 \alpha_2$	(-11/4,-1/4)	(5/4,-1/4)	(-1/4,-1/4)	(-5/4,-1/4)
maximin	$3/4 \alpha_1 + 1/4 \alpha_2$	(-1/4,5/4)	(-1/4,-11/4)	(-1/4,-5/4)	(-1/4,-1/4)

Table 2 . A Summary of Some of the Options Available to Player 1 & 2 and Their Consequences.

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with no solution (in our sense), a player is assumed to recourse to a standard of behavior. Some standards of behavior are examined and discussed. ← **LB**