

ASSIGNMENT

1. Explain why, in Cournot equilibrium with two firms, neither firm would have any regret about its output choice after it observes the output choice of its rival.
2. Explain the difference between the duopoly models developed by Cournot and Bertrand. What predictions do these models make about the equilibrium price relative to marginal cost?
3. What is a reaction function? Why does the Cournot equilibrium occur at the point at which the reaction functions intersect?