1. *Rothschild's Ten Lessons*

1.1 Lesson 1: No agreement & a dominant strategy

U

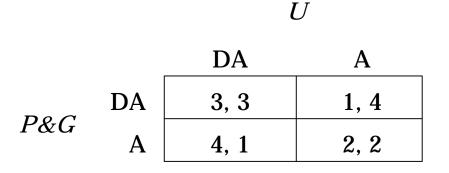|		DA	A
P&G	DA	3, 3	1, 4
	A	4, 1	2, 2

TABLE 1. A dominant strategy (P&G, U)

4 = Very High, 3 = High, 2 = Medium, 1 = Low

If you have a *dominant strategy* and no opportunity to agree on another course of action with your opponent, then play that strategy.

1.2 Lesson 2: No agreement & your rival has a dominant strategy

$$U$$

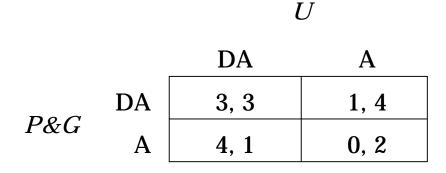|		DA	A
P&G	DA	3, 3	1, 4
	A	4, 1	0, 2

TABLE 2. Only one firm has a dominant strategy

4 = Very High, 3 = High, 2 = Medium, 1 = Low, 0 = Very Low

If you don't have a dominant strategy but your opponent does, and there is no opportunity to agree on another course of action with your opponent, then expect her to play her dominant strategy and do the best you can in the circumstances.

1.3 Lesson 3: No agreement & no dominant strategies → signalling

U

		Hot	Cold
	Hot	1, 1	3, 3
P&G	Cold	3, 3	1, 1

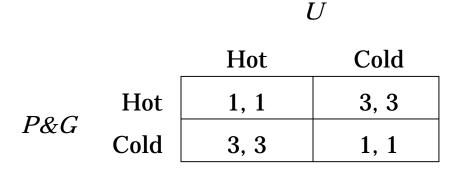**TABLE 3.** No dominant strategy → signalling?

3 = High, 1 = Low

If neither you nor your opponent has a dominant strategy, and there is no opportunity to agree on another course of action, then select, and *signal your commitment* to, a clear strategy to encourage your opponent to behave in a way you'd prefer.

1.4 Lesson 4: Your credible threat

$$U$$

	In	Out
Hi P	4, 4	5, 1
Lo P	2, 0	3, 1

P&G

TABLE 4. The only credible threat

5 = High, 4 = Medium, 3 = Low, 2 = Very Low, 1 = Zero, 0 = Losses

The only *credible threat* is the one which would be in your interest to carry out, if necessary.
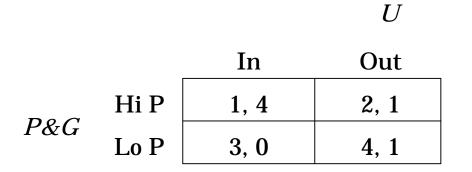
1.5 Lesson 5: Credibility through commitment

U

		In	Out
	Hi P	1, 4	2, 1
P&G	Lo P	3, 0	4, 1

TABLE 5. Credibility through commitment

Commitment to make a threat credible can pay dividends in the long run.
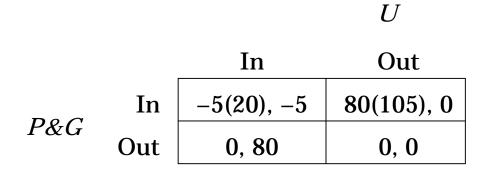
1.6 Lesson 6: Subsidies can be good ... or bad

U

		In	Out
	In	$-5(20),\ -5$	$80(105),\ 0$
P&G	Out	$0,\ 80$	$0,\ 0$

TABLE 6. Subsidies as a good idea

U

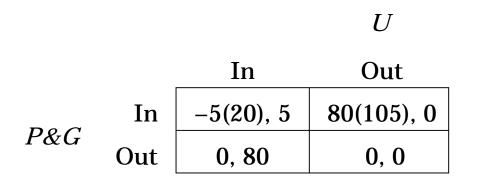|	In	Out
In	$-5(20),\ 5$	$80(105),\ 0$
Out	$0,\ 80$	$0,\ 0$

P&G

TABLE 7. Subsidies as a bad idea

An investment can be profit-increasing if it discourages entry, but costly if your potential competitors are lower-cost than you are.
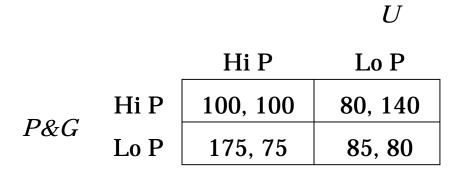
1.7 Lesson 10: Tying one's hands might actually tie one's opponent's too

U

	Hi P	Lo P
Hi P	100, 100	80, 140
Lo P	175, 75	85, 80

P&G

TABLE 8. Price war as a dominant strategy

$$U$$

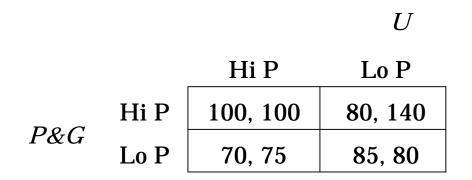|	Hi P	Lo P
Hi P	100, 100	80, 140
Lo P	70, 75	85, 80

P&G

TABLE 9. Avoiding a price war by tying oneself

A firm which appears to be tying its own hands may actually be tying those of its opponent as well. \&