

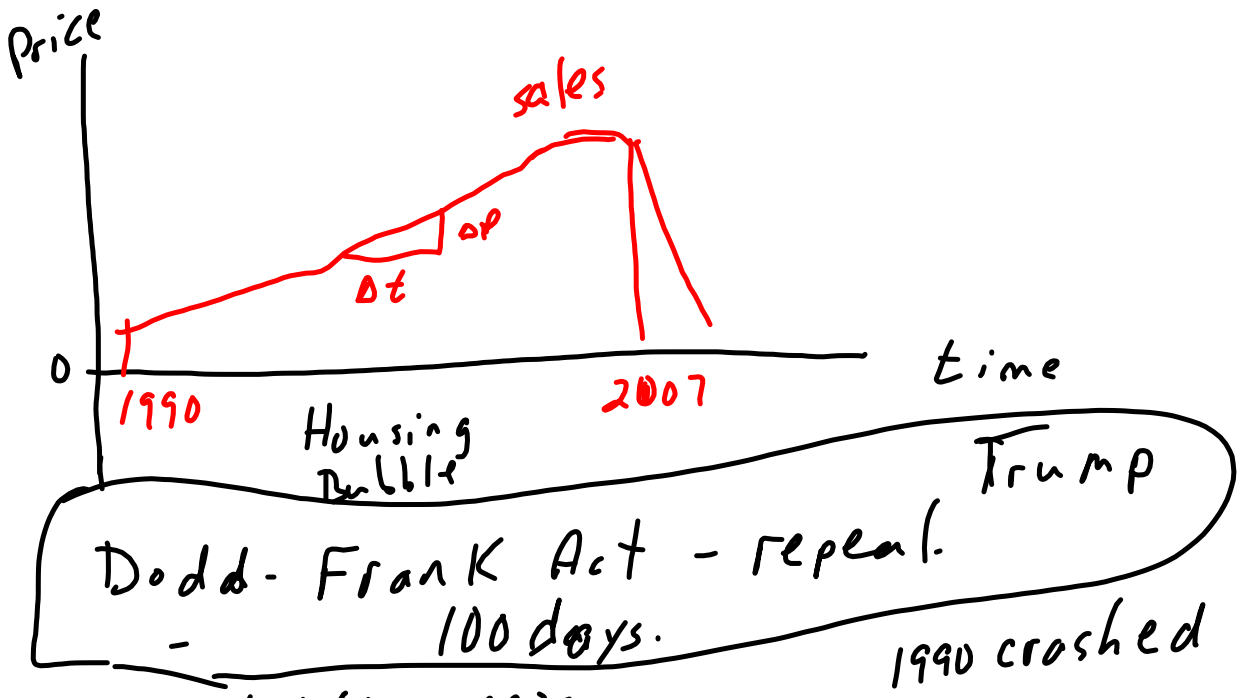
Markets - Asset Markets  
↳ resell - use value  
small relative to  
investment value

Housing 2000 - 2007 (2008)  
price increase 2-3 times  
inflation rate

Glass-Steagall Act - Separate  
commercial banks &  
investment banks

- mortgage market - incentives  
create mortgages (1%)

mbs. - sold - as if safe



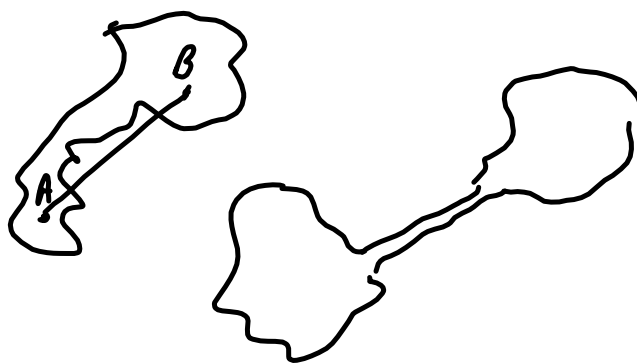
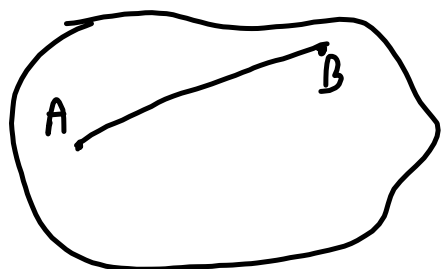
.com bubble 1990s  
 1980s housing bubble

Savings & Loans  
 Commercial Banks

$$U = U(\bar{x}, \sigma^2)$$

↳ bad

Convexity



Duopoly - Oligopoly 2 firms  
 - Contested Market  
 Baumol, Panzer, Willig  
 ↓  
 Bell Labs  
 } interdependent

$$Q_A = Q_B = \frac{1}{2} Q_m$$

$$Q_A + Q_B = Q_m$$

max joint profit  
 share market

		B	H	L
A		40		30
H	40	Nash 32 16, 16 Equil.	20, 15	35
L	30	15, 20	Cartel 18, 18	36

game strategy is  $Q_i$   
 $30 + 30 = 60 = Q_m$

H-dominant strategy  
 $20 > 18$   
 $16 > 15$

Enforce (L, L)?

- repeated game - A+B produce over number of periods

- strategy - choice of Q + response in next period to other's Q in previous period

rule - if  $Q_i = 40$  then  $Q_j = 40$  for all time

scenario - 18 each period (instead of 20)

cheat  $20 + 16 + 16 \dots$

no cheat  $18 + 18 + 18 \dots$

Grim Trigger Strategy -

James Friedman.