Active Learning 3   The fare wars game

The players: Delta Airlines and United Airlines

The choice: cut fares by 50% or leave fares alone

- If both airlines cut fares, each airline's profit = $400 million

- If neither airline cuts fares, each airline's profit = $600 million

- If only one airline cuts its fares, its profit = $800 million; the other airline's profits = $200 million

• Draw the payoff matrix, find the Nash equilibrium