

Game Theory with Applications to Finance and Marketing, I

The Course Syllabus, Fall 2008

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This course introduces the modern non-cooperative game theory to senior undergraduate students and graduate students. We shall first talk about Nash equilibrium (NE), subgame perfect Nash equilibrium (SPNE), Bayesian equilibrium (BE), perfect Bayesian equilibrium (PBE), and the Cho-Kreps refinement on PBE's. Examples coming out of finance and product market competition may include auctions, asset trading, bilateral monopoly, bargaining, and strategic firms' imperfect competition in price, quantity, and location. The emphases will be on signalling games and screening games that are particularly useful in dealing with static corporate agency problems.

Then the course considers many applications in finance and marketing. These applications will be useful for students who are interested in writing master theses using the game-theoretic approach. The applications in finance may include financial signaling, financial contract design, stock trading with information asymmetry, the strategic roles of option contracts. The applications in marketing may include optimal product line design and product line extension, the theory of distribution channel, optimal promotion mix design (coupon versus rebate, and trade dealing), exclusive dealing and exclusive territory, optimal pricing strategy (best price in town policy) and collusion, and consumer search. We shall link these topics to e-commerce.

Students will be responsible for solving problem sets and completing a term paper. This together with an in-class midterm examination determines a student's grade. A tentative schedule now follows.

Week No.	Contents
1	Static Games with Complete Information, I
2	Static Games with Complete Information, II
3	Multistage Games and Repeated Games
4	Static Games with Incomplete Information
5	Screening Games, Part I
6	Screening Games, Part II
7	Signaling Games
8	Perfect Bayesian Equilibrium and Refinements
9	Midterm Exam
10	Financial Signaling Models, I
11	Financial Signaling Models, II
12	Asset Trading Models, I
13	Asset Trading Models, II
14	Interactions between Financial and Product Markets
15	Pricing Strategies
16	Product Line Design, Branding and Return Policy
17	Distribution Channels and E-commerce
18	Oral Presentation