Price Rivalry

Your team is one of two sellers of a homogeneous, unbranded commodity. We assume that buyers automatically buy from the seller with the lowest price. If both sellers ask the same price, then the buyers will split their purchases equally between the two sellers.

The following table shows how much can be sold in total:

Industry Demand

Price	Quantity
$9	0
$8	1
$7	2
$6	3
$5	4
$4	5
$3	6
$2	7
$1	8
$0	9

So if you price at $4 and the other team at $5, then you make all the sales, to sell 5 units with a sales revenue of $20. There is an average cost of $2 per unit, so that your profit will be $\$20 - 5 \times \$2 = \$10$. The aim of the exercise is to maximise your total profits over the periods.

Each period your team and the other selling team will simultaneously choose a price to ask of buyers, without communicating with the other team. Write your price down. You have 30 seconds to decide on your price. As soon as both teams have submitted a price, the papers are collected, the prices announced, and the instructor will calculate your team's profits and the profits of the other team for that period, and will write both out on the overhead.

There will be one practice round to make sure everyone understands how the interaction works.

Then we shall keep repeating the above process until the instructor announces the end of the interaction. Your profits will be totalled over the periods of interaction.