



Consider trade relations between the United States and Mexico. Assume that the leaders of the two countries believe the payoffs to alternative trade policies are as follows.

		United States' Decision	
		Low Tariffs	High Tariffs
Mexico's Decision	Low Tariffs	U.S. Gains \$25 Billion Mexico Gains \$25 Billion	U.S. Gains \$30 Billion Mexico Gains \$10 Billion
	High Tariffs	U.S. Gains \$10 Billion Mexico Gains \$30 Billion	U.S. Gains \$20 Billion Mexico Gains \$20 Billion

11. What is the dominant strategy for the United States? Why?

to have high tariffs ... they are better off having high tariffs than low tariffs regardless of what Mexico does

12. What is the dominant strategy for the Mexico? Why?

to have high tariffs ... they are better off having high tariffs compared to low tariffs regardless of what the U.S. does

13. Both countries will end getting stuck in the dominant strategy equilibrium doing what?

having high tariffs

14. Both countries would be better off though if they could cooperate and each do what?

have low tariffs