

**HOMEWORK 3** (due in class March 11)

**Problem 1.**

Suppose a manager and a worker interact as follows. The manager decides whether to hire or not hire the worker. If the manager does not hire the worker, then the game ends. When hired the worker chooses to exert either high effort or low effort. On observing the worker's effort, the manager chooses to retain or fire the worker. Represent this situation as an extensive form game. Justify the payoffs you have assumed the two players get. What are the equilibria of this game?

**Problem 2.**

Problem 2 from page 75 in Dixit and Skeath.

**Problem 3.**

Problem 3 from page 75 in Dixit and Skeath.