Concept of Game Theory

Game theory was introduced by a mathematician John Von Neumann and an economist, Oskar Morgenstern, in 1950 s.

This theory aims at providing a systematic approach to business decision making of organization.

It is applied to evaluate the situation where individuals and organizations have contradictory objectives

For example, while settling a war b/w two nation, every nation tries to get the settlement in its favor only during peace meetings / negotiations.

In such a case, game theory helps in solving the problem and arriving at a common consensus

Apart from this, the theory can be applied to analyze activities, such as legal and political strategies and economic behaviour.

Structure of a Game.

It's based on the concept of strategy and payoffs. strategy indicates an action that a player takes when challenged to solve a particular problem. On the other hand, pay off refers to the outcome of the strategy applied by the player. For example, two friends are playing coin flipping game.