

FOREWORD TO PONSSARD'S "FORWARD INDUCTION AND SUNK COSTS GIVE AVERAGE COST PRICING"

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I had the privilege to study at Stanford during the years 1969-1971 under the supervision of Robert Wilson. In no time he made me an addict of game theory. I would like to take this opportunity to briefly explain why.

First, I was struck by his use of game concepts to formalize decision under uncertainty. I remember my surprise when I discovered for myself that Bayesian updating was embedded in the Nash equilibrium concept when applied to games of incomplete information. That is just a mathematical property of the strategic equivalence between extensive and normal form representations! Bob had the sensitivity to steer this "discovery" into research.

Second, I was seduced by his willingness to apply game theory. Bob's class contained "small" case studies (I remember that he hated the Harvard Business School's "obese" cases). They were extremely helpful to me to understand the underlying ideas. Without them in the background I do not think that I could have worked for such a long time on zero-sum games.

Lastly, I would like to mention the fact that Bob always introduced the latest references in his class room notes. This created a very stimulating atmosphere as well as an enormous pressure to obtain results. I remember how afraid I was to show my results to Bob Aumann. He and Michael Maschler had worked so intensely on games of incomplete information (and Bob Wilson had only told us rumors about their results) that I could not imagine that they had not already proved my main theorem.

These memories are still well alive, and it was a great time. Bob not only was a decisive influence at that time but, as the following paper illustrates, was also the model who forged my tastes and attitudes towards all of my research.