BUSINESS & STRATEGY

The Art of Strategy

by Avinash K. Dixit and Barry J. Nalebuff

Game theory in plain words: think ahead, read the other side, and choose moves that win in life and work.

BEST POINTS FROM THE BOOK

01 **Look forward and reason backward.**

Picture where each of your moves leads, including your rival's reply, then work back to the best move today. It is the book's Rule 1 for every game played in turns.

02 **Put yourself in the other player's shoes.**

Game theory's key lesson: predict what they will actually do, given their goals and what they know - not what you would do in their place.

03 **If one move is best no matter what the other side does, play it.**

That is a dominant strategy, the book's Rule 2. And if your rival has one, count on them using it, and build your best response around it.

04 **Find the resting point where nobody wants to move alone.**

That is a Nash equilibrium: each side's move is its best reply to the other's. Cross out moves that are never a best reply, then look for the spot where the best replies meet.

05 **The prisoner's dilemma makes smart people sabotage each other.**

Each side's safest move leaves both worse off, as in a price war. The book's escapes: meet again and again, make cheating easy to catch, punish it fast and surely, and guard your reputation.

06 **Threats and promises work only when they are believable.**

Cheap talk changes nothing. Make your word binding - burn your retreat, accept a penalty for backing down, or stake your reputation - so rivals must take you seriously.

07 **Brinkmanship trades one big threat for a rising shared risk.**

A threat to destroy both sides for sure is not believable. Instead, take small steps that raise the chance of disaster for both of you, until the other side prefers to back down.

08 **When being predictable costs you, randomize.**

In head-on conflict, any pattern gets exploited. Mix your moves in proportions that leave your rival indifferent between their options - the book's Rule 5.

09 **Actions speak louder than words.**

Claims are cheap, so watch what rivals do, not what they say. A signal convinces only when it would cost a bluffer too much to fake it - like a warranty only a good product can afford.

10 **Measure the bargaining pie before you fight over it.**

The pie is not the whole deal. It is the extra value a deal creates over what each side gets by walking away - so a better outside option quietly buys you a bigger slice.

11 **Winning can be a curse when you only win by overpaying.**

In auctions and bidding wars, ask what it means that everyone else stopped below your price. Reason forward to the consequences of winning before you bid, not after.

THE BOOK, IN SHORT

Strategy is any situation where your best move depends on someone else's move - a negotiation, a price war, a rivalry at work, even an argument at home. Avinash Dixit of Princeton and Barry Nalebuff of Yale teach game theory, the science of such situations, using stories and plain words instead of heavy math.

Their method starts by mapping the game: who the players are, what moves each side can make, and what each side really wants. For games played in turns, you draw the branches of possible moves and look forward, then reason backward. For games played at the same time, you lay the choices in a table and apply their rules: use a dominant strategy if you have one, cross out moves that are never a best reply, and look for the Nash equilibrium, the resting point where no player gains by changing alone.

The prisoner's dilemma shows how two smart, self-protecting players can both land in a bad result - the logic behind price wars and arms races. The book then shows the way out: repeat the relationship, make cheating easy to detect, punish it swiftly and surely, and build a reputation that makes your word worth trusting.

Part two changes the game itself. Strategic moves - commitments, threats, and promises - only work when they are credible, so you may have to cut off your own retreat to be believed. Brinkmanship replaces one huge, unbelievable threat with a shared risk that grows step by step. And when a rival profits from reading your pattern, you mix your moves so they cannot.

The final part covers information and deals: why actions speak louder than words, and how signals convince only when they are too costly to fake; how to avoid the winner's curse in auctions; and how to measure the true pie in a bargain - the extra value of a deal over walking away. The closing lesson is quietly powerful. You cannot control your rivals, but you can often change the game - the players, the rules, or the payoffs - so the outcome you want becomes the one everyone naturally drifts toward.

DO THIS WEEK

Before one negotiation or hard talk this week, map the game on a single page: the players, each side's likely moves, and what each side gets if there is no deal - your walk-away option. Mark your best reply to each of their moves, check whether either side has a move that is best no matter what, and find the resting point where neither side wants to move alone. Choose with the map in front of you, not with your gut.

By Avinash K. Dixit and Barry J. Nalebuff, first published 2008, building on their 1991 book Thinking Strategically. Read it if you negotiate, compete, or manage rivals of any kind.