In the Scope chapter, we'll return to the important subject of links between games.

5. Rationality and Irrationality

People often imagine that game theory requires all the players to be rational. Everyone is out to maximize profits. Everyone understands the game. There are no misperceptions. Feelings of pride, fairness, jealousy, spite, vengefulness, altruism, charity never arise. That's all very nice, but it's not the way the world is. So much for game theory.

In many ways, people are right, or were right. Granted, the simple textbooks present a view of "rational man" that doesn't apply very well to the mixed-up, real world of business. But that's a problem with the textbooks. While early work in game theory didn't talk much about rationality or irrationality, current work does. The textbooks simply haven't caught up yet.

Early game theorists had good reason to spend little time worrying about irrationality. Game theory started out by analyzing zero-sum games, like poker and chess. In these games, failing to anticipate that the other player may make an irrational move doesn't get you into trouble. If he does something irrational, that's good news for you. Anything that makes him worse off must make you better off, since it's a zero-sum game.

But games in business are seldom zero-sum. That means you can succeed together or fail together. When another player can take you down with him, you care about his rationality. Think back to the Card Game. How Adam and a student divide the $100 is zero-sum: if Adam gets more, the student gets less, and vice versa. But the fact that Adam and the student will both get nothing if they fail to reach an agreement makes this very much a non-zero-sum game. Either player, in hurting himself, hurts the other player, too. Each has to be concerned about the other's rationality.