Table 1: Two-Firm Competition

Airbus Boeing	Produce	Don't Produce
Produce	-5 -5	0 100
Don't Produce	100 0	0 0

In Table 1, each row corresponds to a particular decision by Boeing; each column to a decision by Airbus. In each box are two entries: the entry on the lower left represents the profits of Boeing, while that on the upper right represents the profits of Airbus. Table 1 reflects the following assumption: either firm alone could earn profits making 150-seat aircraft, but if both firms try to produce them, both will lose. Which firm will actually get the profits? This depends on who gets there first. Suppose that Boeing is able to get a small head start and commits itself to produce 150-seat aircraft before Airbus can get going. Airbus will find that it has no incentive to enter. The outcome will be in the upper right of the table, with Boeing earning profits.

Now comes the Brander-Spencer point: the European government can reverse this situation. Suppose that the European government commits itself to pay its firm a subsidy of 25 if it enters. The result will be to change the table of payoffs to that represented in Table 2. It is now profitable for Airbus to produce 150-seat aircraft whatever Boeing does.

Table 2: Effects of a Subsidy to Airbus

Airbus Boeing	Produce	Don't Produce
Produce	20 -5	0 100
Don't Produce	125 0	0 0