

**25. Correct. The answer is false.** The reaction functions of Firm 1 and Firm 2 are respectively,

Profit function for the two firms are:

$$\pi_1 = [200 - 2(Q_1 + Q_2)]Q_1 - 6Q_1^2$$

$$\pi_2 = [200 - 2(Q_1 + Q_2)]Q_2 - (5Q_2 + 10)$$

First order condition for profit maximization:

$$\frac{\partial \pi_1}{\partial Q_1} = 200 - 16Q_1 - 2Q_2$$

$$\frac{\partial \pi_1}{\partial Q_1} = 0$$

$$Q_1 = 12.5 - 0.125Q_2$$

$$\frac{\partial \pi_2}{\partial Q_2} = 185 - 2Q_1 - 4Q_2$$

$$\frac{\partial \pi_2}{\partial Q_2} = 0$$

$$Q_2 = 46.25 - 0.5Q_1$$

Solving for  $Q_1$  and  $Q_2$ ,  $Q_1 = 7.168$  and  $Q_2 = 42.66$  units, and price equals to

$$P = 200 - 2(7.168 + 42.66) = 100.34$$

$$\pi_1 = 100.34 * 7.168 - 6 * 7.168^2 = \$410.96$$

$$\pi_2 = 100.34 * 42.66 - (5 * 42.66 + 10) = \$4057.20, \text{ Therefore,}$$

$$\pi_2 / \pi_1 = 4057.20 / 410.96$$

$$\pi_2 / \pi_1 = 9.87$$