Chapter 12
Game Theory vs. Business Ethics:
The Game of Ethics

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ABSTRACT

In 1954, the British philosopher Richard Braithwaite gave his inaugural lecture, Theory of Games as a Tool for the Moral Philosopher. Braithwaite predicted game theory would fundamentally change moral philosophy. However, in hindsight, John von Neumann and Oskar Morgenstern’s publication of Theory of Games and Economic Behaviour was the moment modern game theory entered the discipline of ethics. The purpose of this chapter is to analyze the relationship between game theory and business ethics. In other words, this chapter explains how game theory plays a role in business ethics and affects business ethics for emerging economies and covers in detail: 1) the history of game theory; 2) types of definition(s) of games; 3) business ethics; 4) business; and 5) ethics. The chapter concludes with the role that game theory and business ethics play in emerging economies.

INTRODUCTION

In economic behavior, game theory and technology are assuming an increasingly prominent position in the world and emerging economies. In 2002, emerging economies not only received a significant amount of Foreign Direct Investment (FDI) inflows, but also accounted for 12 percent of the world’s FDI outflows which grew from US$65 billion in 1980 to US$849 billion in 2002 (UNCTAD, 2003). This change has come primarily because these economies comprise countries...
Game theory is the formal study of conflict and cooperation, and game theoretic concepts apply whenever the actions of several agents are interdependent (Varoufakis, 2001). These agents may be individuals, groups, firms, or any combination of these. The concepts of game theory provide a language to formulate structure, analyze, and understand strategic scenarios. In other words, a game refers to an interactive situation involving two or more players making strategic decisions. Game theory is a branch of applied mathematics concerning optimal or purposeful behavior in different types of situations involving strategy and rational decision.

The purpose of this chapter is to analyze the relationship between game theory and business ethics. In other words, this chapter will explain how game theory plays a role in business ethics, and effect business ethics for emerging economies. In so doing, this chapter will cover in details:

1. The history of game theory,
2. Types of/definition(s) of game,
3. Business ethics,
4. Business, and
5. Ethics.

The chapter will conclude with the role that game theory and business ethics play in emerging economies.

THE GAME IN GAME THEORY

The object of study in game theory is the game which is a formal model of an interactive situation. The game in game theory typically involves several players. A player is defined as a rational agent in which a rational agent is not necessarily a person as a rational agent could be an institution or a firm, where rationality consists of “complete knowledge of one’s interests and flawless calculation of what actions will best serve those interests” (Dixit, Reiley, & Skeath, 2009: 30). An
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