

## ch 16 Monopolistic Competition

monopolistic Competition:

a market structure with

- (i) many producers
- (ii) differentiated products
- (iii) in the long run,  
free entry and exit

# Product differentiation

• by style or type

e.g. Vendors in a food court : Chinese food, Korean food, Mexican food, Italian food

clothing stores sell:

women's or men's,

business suits,

sportswear,

classic

• by location

gas stations,

motels,

dry cleaners

• by Quality

Swiss chocolate

gourmet vs ordinary

coffee beans

catering to consumer

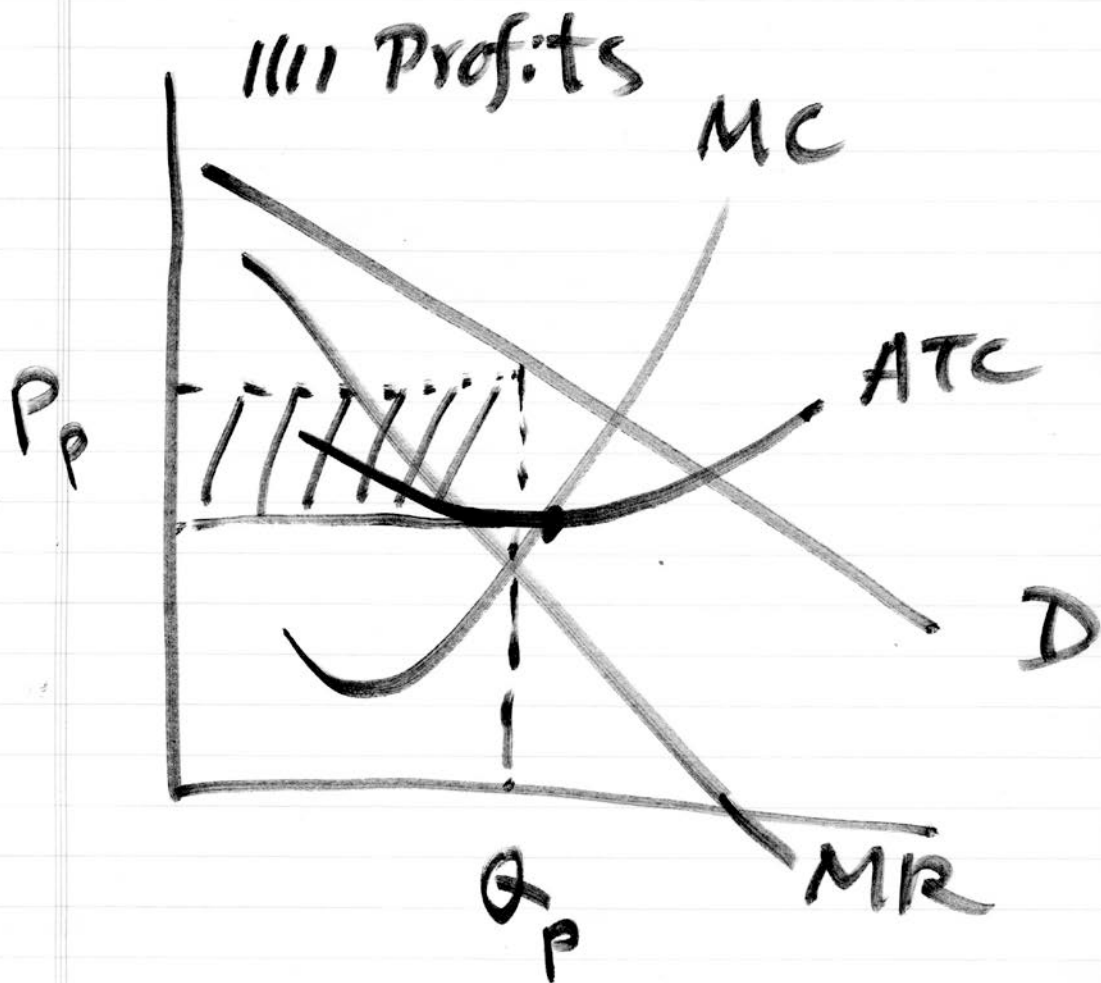
preferences

Starbucks

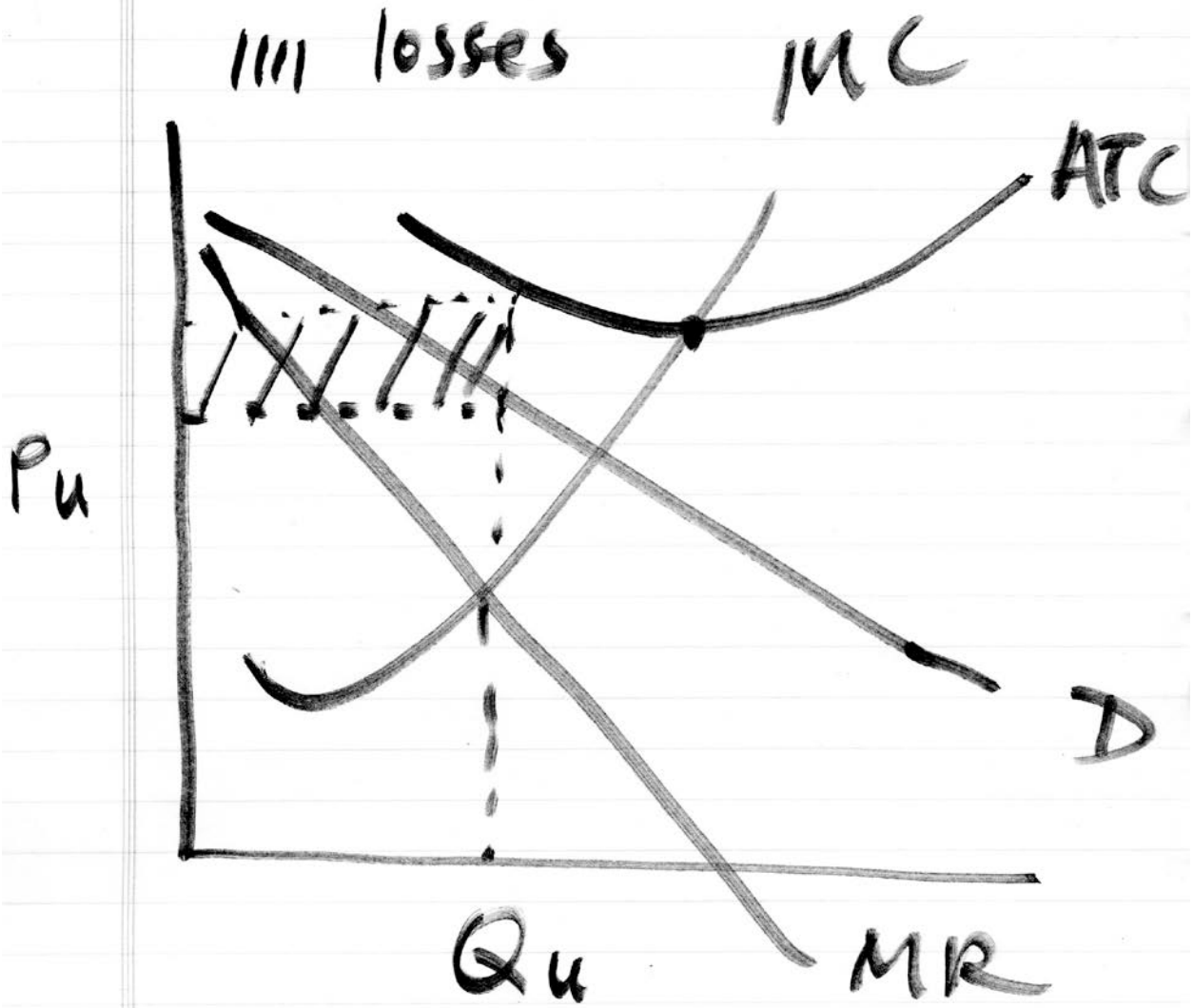
amazon.com

# Graphical Analysis

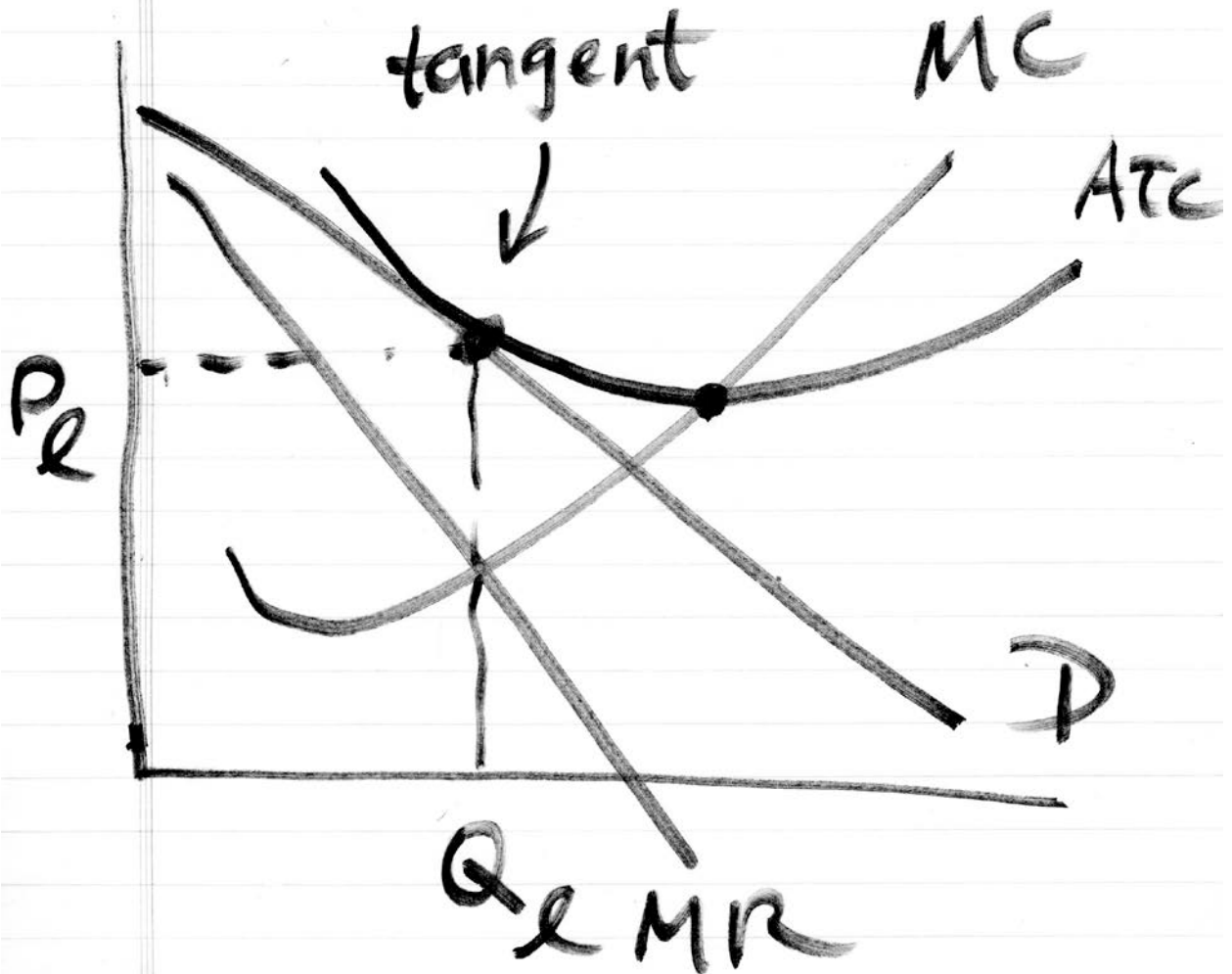
Short run: can have economic profits or losses / D-curve downward sloping  
Econ Profits sloping



# Econ Losses

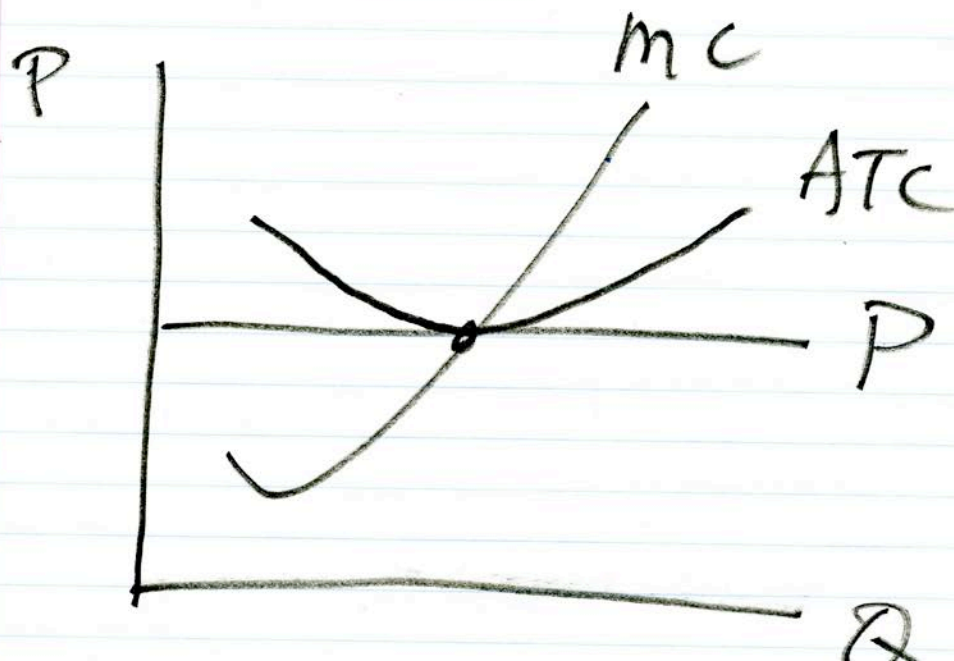


Long run: zero econ  
profits due to free  
entry / exit;  
still with downward-  
sloping D



In the long run, monopolistic competition has excess capacity: firms do not minimize average total cost

Perfect Competition  
in long run equilibrium



Also for monopolistic  
competition,  $P > MC$

- some mutually beneficial  
trades not transacted

- excess capacity  $\Rightarrow$  not  
at min ATC  $\Rightarrow$  **wasteful  
duplication**

but consumers gain from  
product diversity

inefficient ?? **Maybe**



## Advertising

US businesses spent \$149 b.  
on advertising in 2007

- information
- signals

## Brand Names

name owned by a particular  
firm that distinguishes  
its products from those  
of other firms