MONOPOLISTIC COMPETITION

Monopolistic competition

- Monopolistic competition: Market structure characterised by the presence of many firms selling differentiated products.

# Monopolistic competition: Characteristics

- **Relatively large number of sellers**

  - Small market shares

  - No collusion

  - Independent action

- **Easy entry and exit**

Monopolistic competition: Characteristics

- **Differentiated products**

  - Product attributes: Real product differences in features, material, design and workmanship. e.g. personal computers and laptops

  - Service conditions: Reputation for servicing/exchanging products, staff behaviour, credit availability etc.

  - Location of the firm

  - Brand names, trademarks, packaging, and celebrity connections

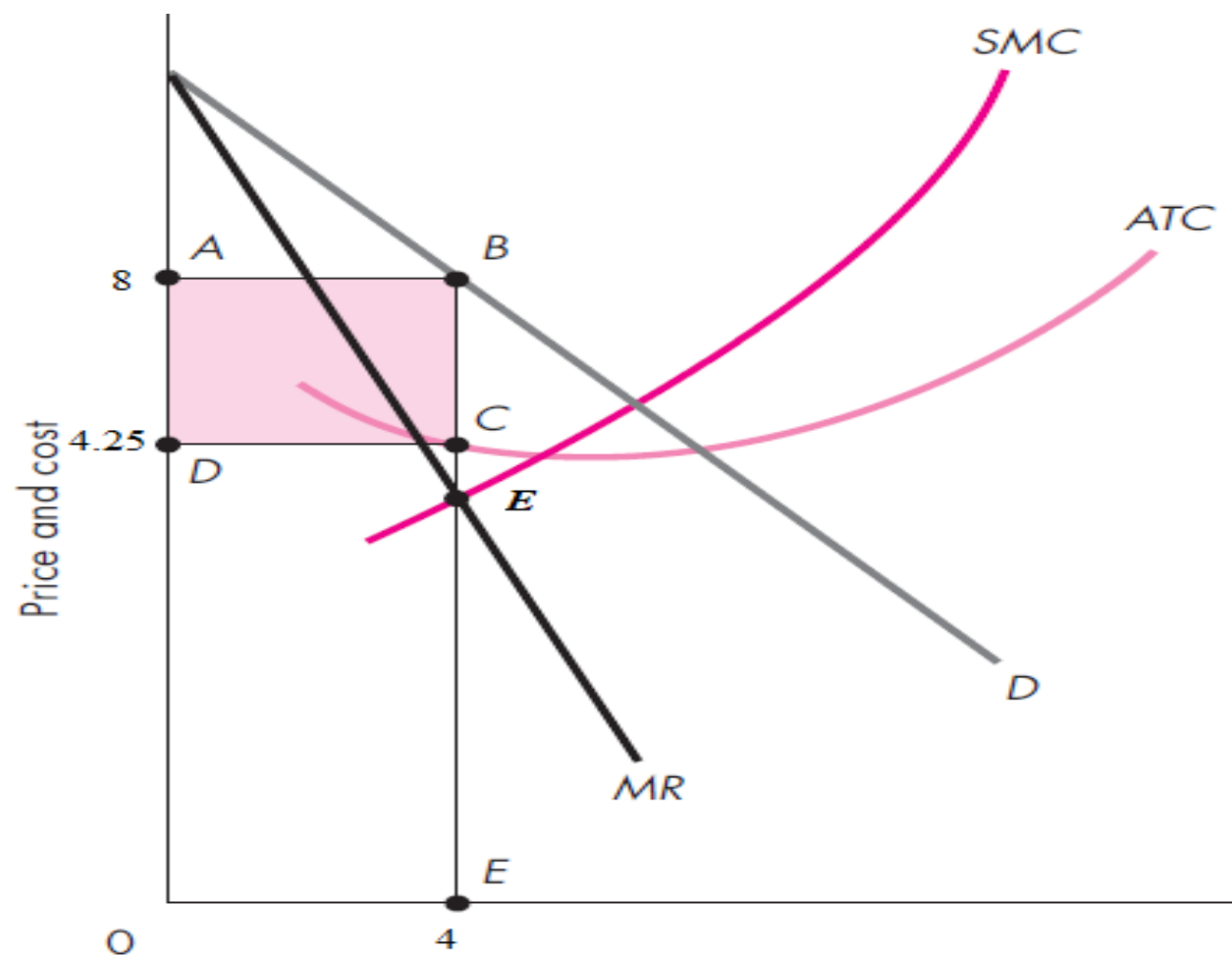# Product differentiation & the demand curve under monopolistic competition
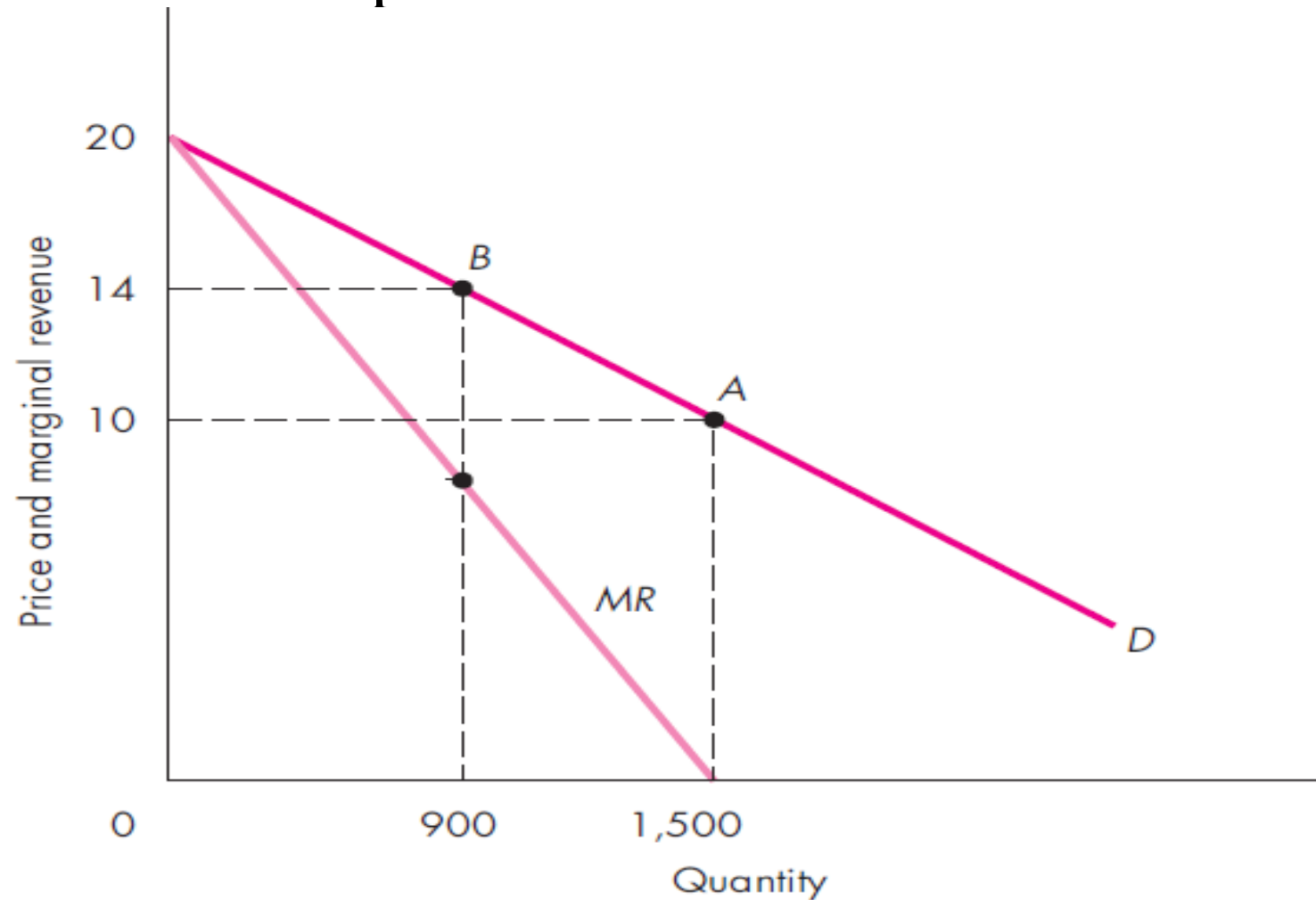
The short-run output decision: Maximising profits

1	2	2	3	4	5	6	7
Quantity (Q)	Price (P = AR)	Total Revenue (TR)	Total Cost (TC)	Profit (TR − TC)	Marginal Revenue $\left(\text{MR} = \frac{\Delta \text{TR}}{\Delta \text{Q}}\right)$	Marginal Cost $\left(\text{MC} = \frac{\Delta \text{TC}}{\Delta \text{Q}}\right)$	Change in profit (MR − MC)
0	12	0	3	-3	—	—	—
1	11	11	5	4	11	2	9
2	10	20	8	12	9	3	6
3	9	27	12	15	7	4	3
4	8	32	17	15	5	5	0
5	7	35	23	12	3	6	-3
6	6	36	30	6	1	7	-6
7	5	35	38	-3	-1	8	-7
8	4	32	47	-15	-3	9	-12

The short-run output decision: Maximising profits

The short-run output decision: Minimising loss

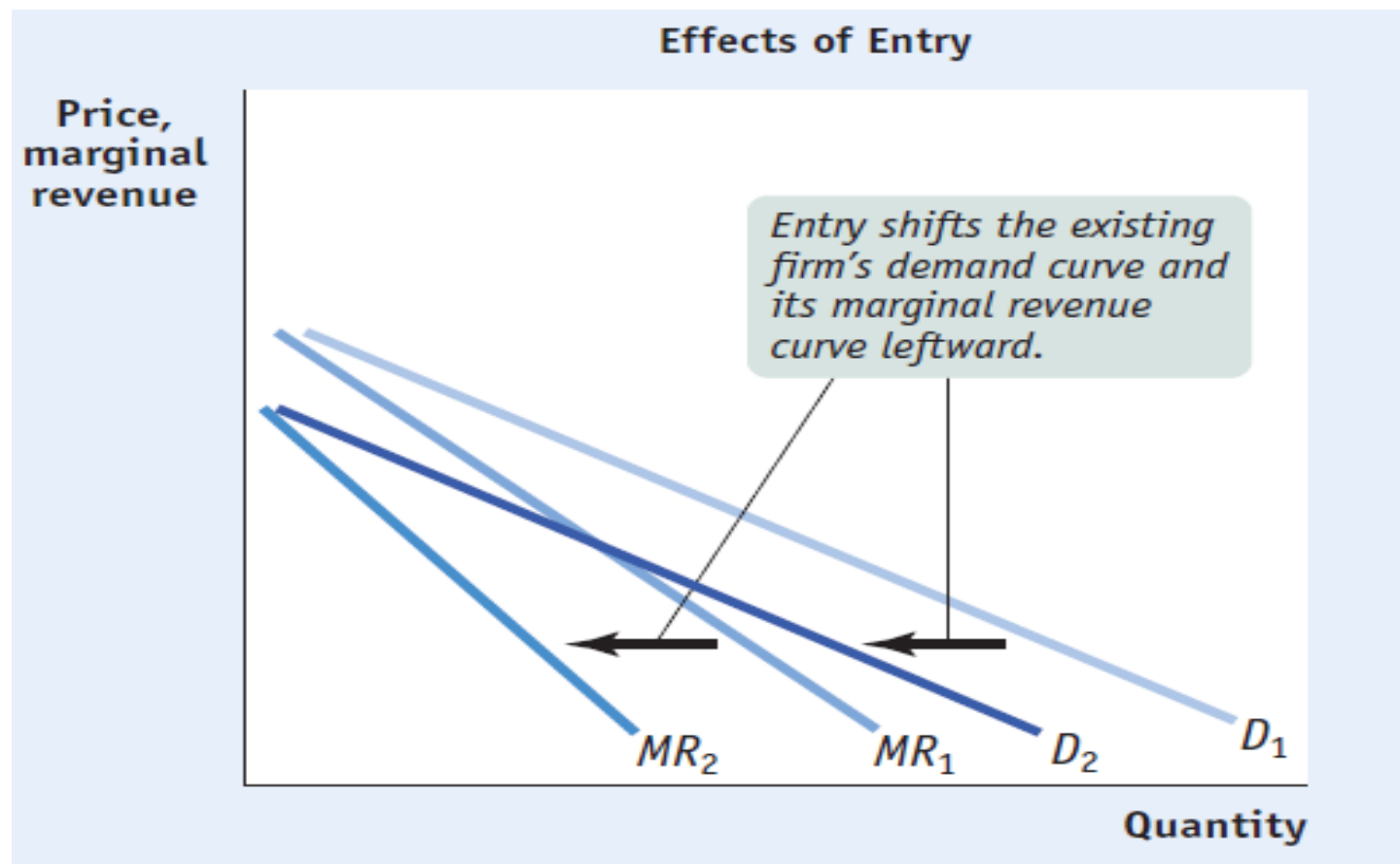|	1	2	2	3	4	5	6	7	8
	Quantity (Q)	Price (P = AR)	Total Revenue (TR)	Total Cost (TC)	Profit (TR − TC)	Marginal Revenue $\left(MR = \frac{\Delta TR}{\Delta Q}\right)$	Marginal Cost $\left(MC = \frac{\Delta TC}{\Delta Q}\right)$	Total Variable Cost (TVC)	Average Variable Cost (AVC)
	0	12	0	23	-23	—	—	0	—
	1	11	11	25	-14	11	2	2	2
	2	10	20	28	-8	9	3	5	2.50
	3	9	27	32	-5	7	4	9	3
	4	8	32	37	-5	5	5	14	3.25
	5	7	35	43	-8	3	6	20	4
	6	6	36	50	-14	1	7	27	4.50
	7	5	35	58	-23	-1	8	35	5
	8	4	32	67	-25	-3	9	44	5.5

The short-run output decision: Minimising loss
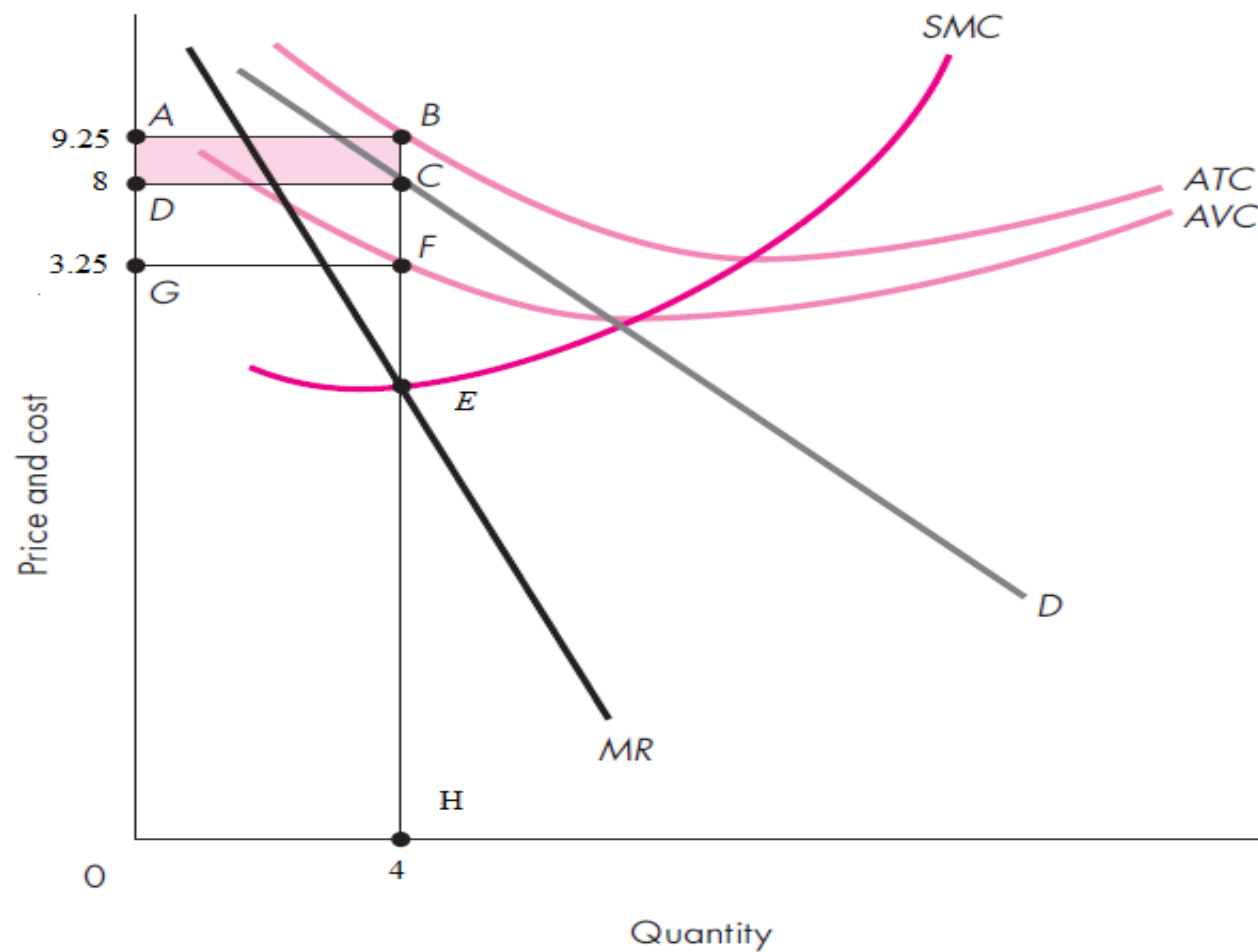
Firm entry & exit and the long-run equilibrium

- Profits encourage entry:

Effects of Entry

Price, marginal revenue

Entry shifts the existing firm's demand curve and its marginal revenue curve leftward.

MR_2 MR_1 D_2 D_1

Quantity

Firm entry & exit and the long-run equilibrium

- Losses encourage exit:

Effects of Exit

Price, marginal revenue

Exit shifts the existing firm's demand curve and its marginal revenue curve rightward.

MR_1 MR_2 D_1 D_2

Quantity
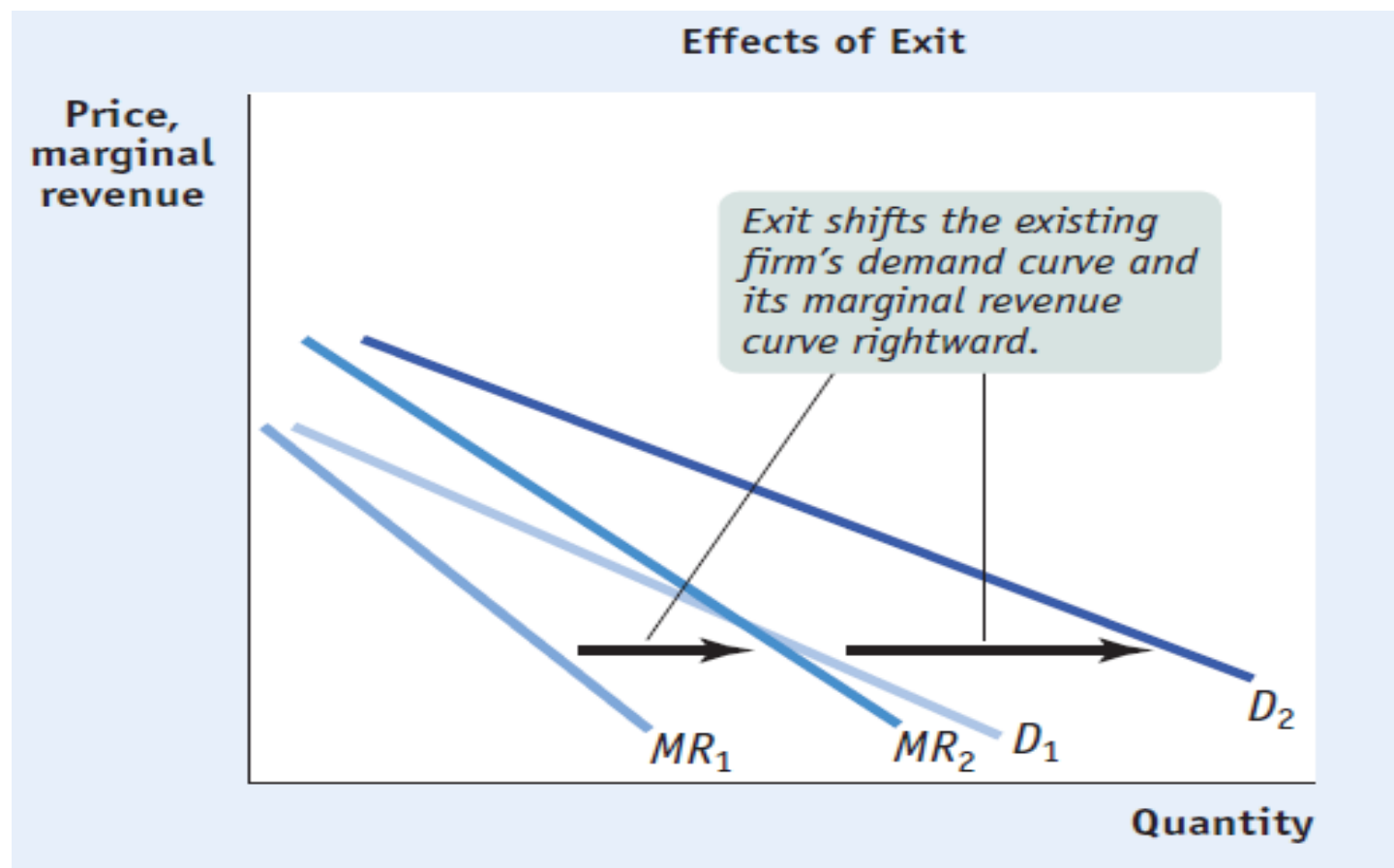
Firm entry & exit and the long-run equilibrium

Price	Market demand	Demand for an individual firm		
		Number of firms in the market		
		4	2	1
₹140	200	50	100	200
₹120	400	100	200	400
₹100	600	150	300	600
₹80	800	200	400	800
₹60	1000	250	500	1000
₹40	1200	300	600	1200
₹20	1400	350	700	1400

The long-run output decision

1	2	2	3	4	5	6	7
Quantity (Q)	Price ($P = AR$)	Total Revenue (TR)	Total Cost (TC)	Profit ($TR - TC$)	Marginal Revenue $\left(MR = \frac{\Delta TR}{\Delta Q}\right)$	Marginal Cost $\left(MC = \frac{\Delta TC}{\Delta Q}\right)$	Change in profit ($MR - MC$)
0	12	0	18	-18	—	—	—
1	11	11	20	-9	11	2	9
2	10	20	23	-3	9	3	6
3	9	27	27	0	7	4	3
4	8	32	32	0	5	5	0
5	7	35	38	-3	3	6	-3
6	6	36	45	-9	1	7	-6
7	5	35	53	-18	-1	8	-7
8	4	32	62	-30	-3	9	-12

The long-run output decision

THANK YOU