

# Chapter 17

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## Monopolistic Competition

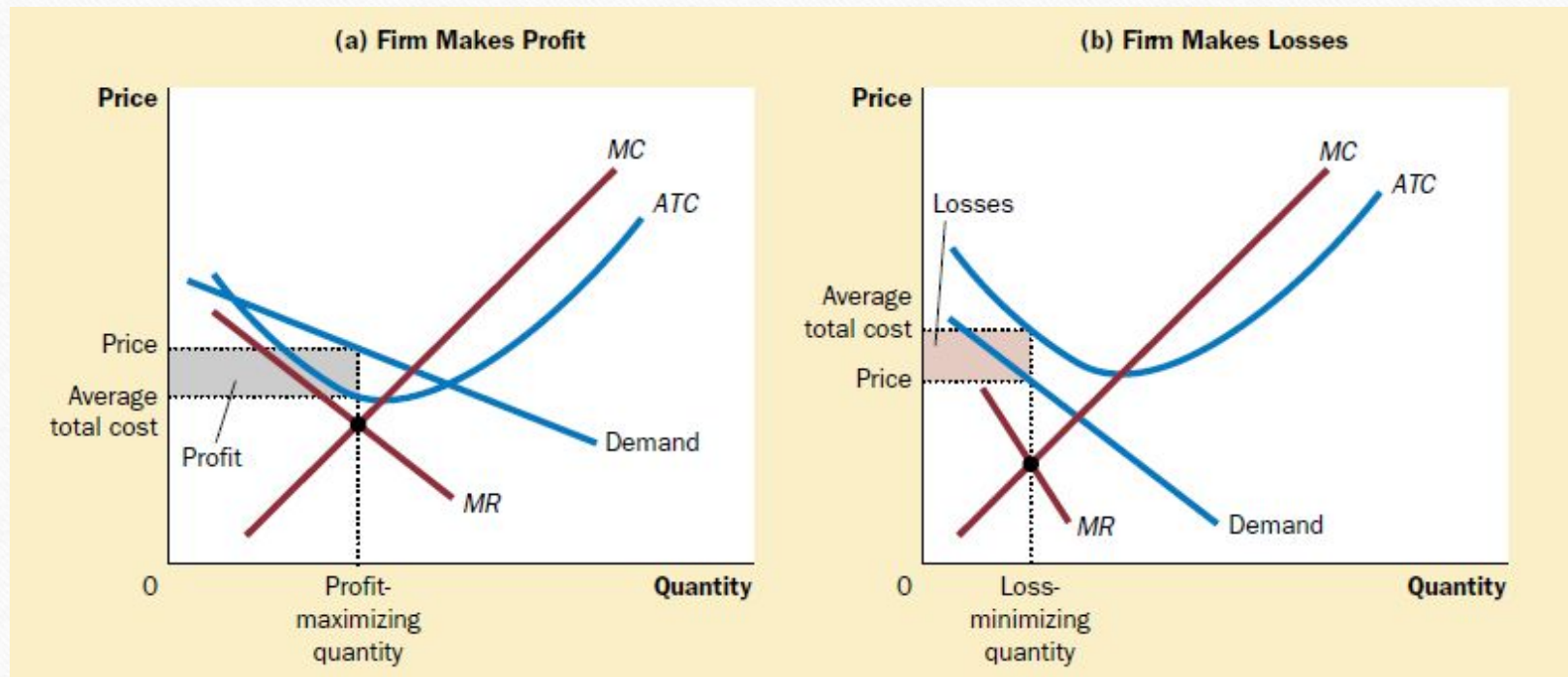
# Introduction

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- Features
  - Many producers selling close substitutes (product differentiation)
  - Many buyers
  - Free entry and exit is permitted
- Example
  - CDs, movies, books, computer games, restaurants, cookies, furniture etc.

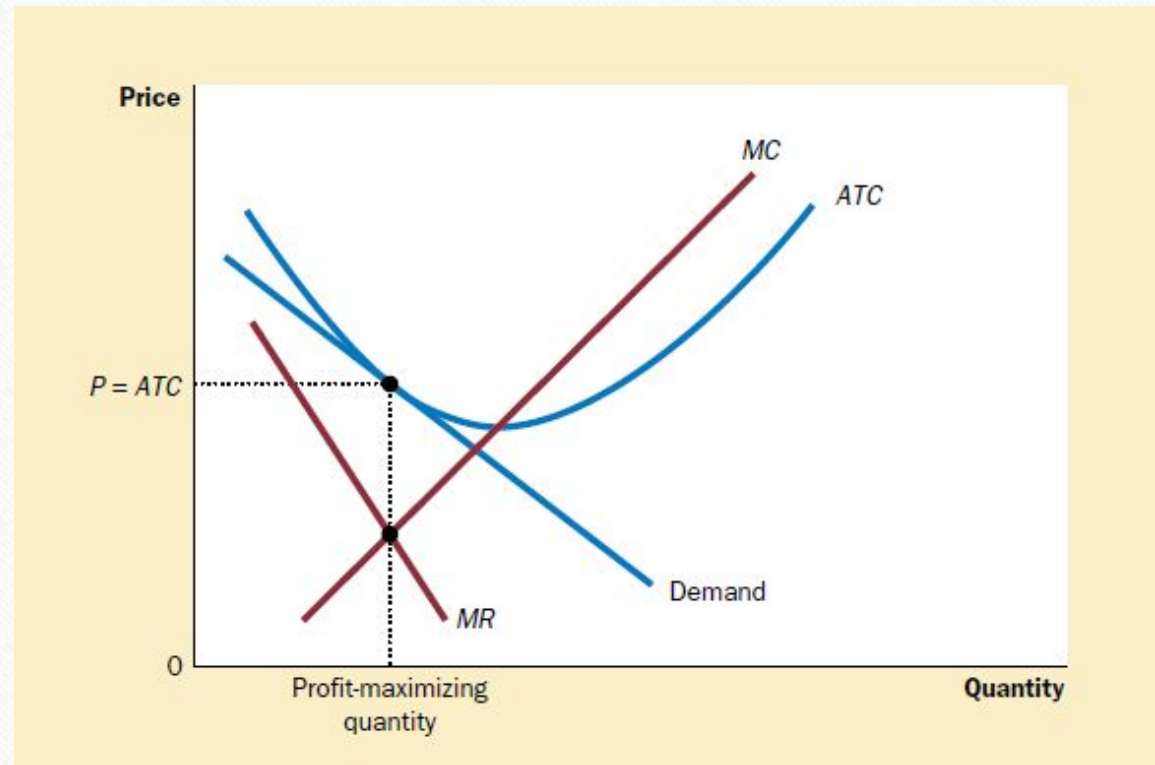


# Short-run equilibrium

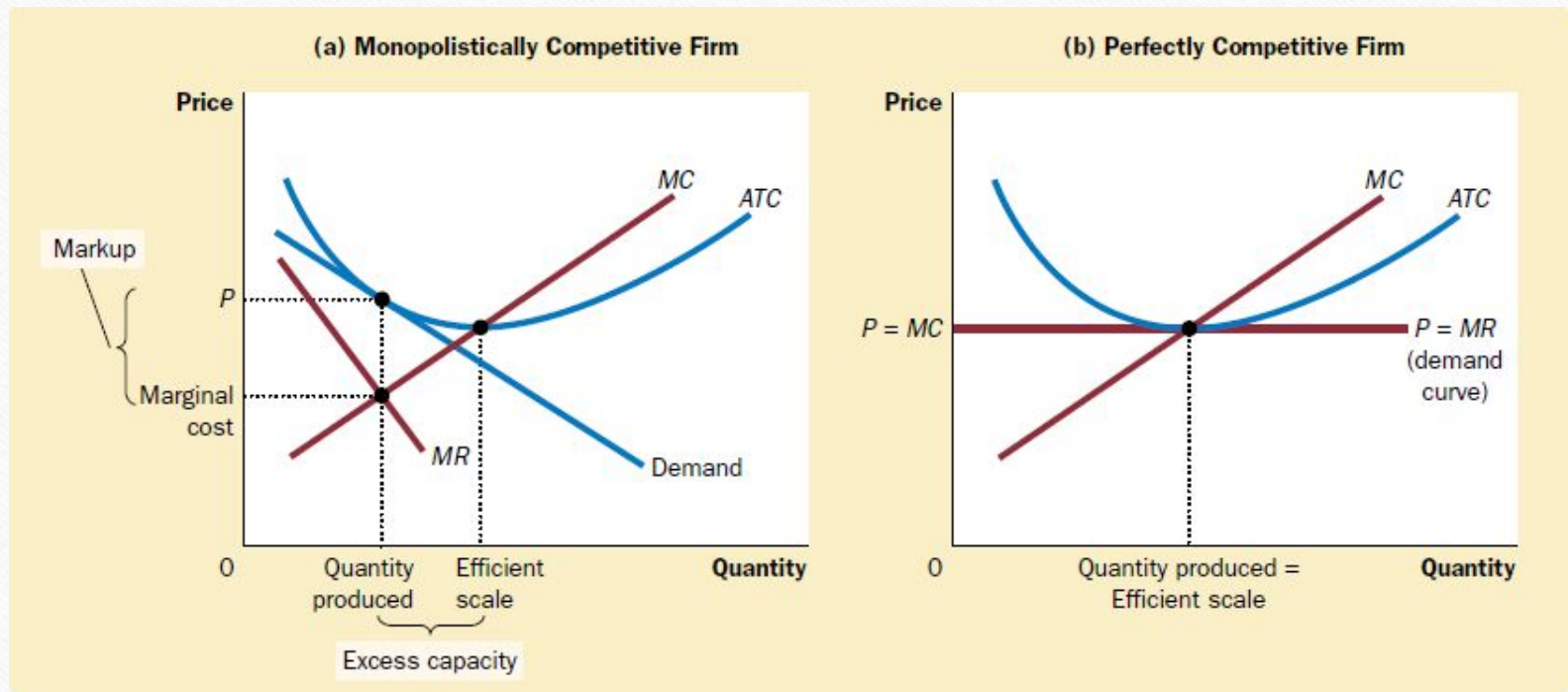


## Long-run equilibrium

- Due to free entry, new firms will enter (panel a)
- Demand faced by each firm will reduce and will tend to zero profit
- $P > MC$



# Comparison





# Special feature

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- Advertising, branding, packaging, marketing, and so forth
- Advertising may increase the sales
- It can act as a signal of quality
- Brand name helps but sometimes it is overhyped
- However, it may also reduce competition