

# CH-310-A Microeconomics - Theory and Policy

## Chapter 15 of Krugman and Wells

# Monopolistic competition / perfect competition

Monopolistic competition is similar to perfect competition in that firms in both market structures:

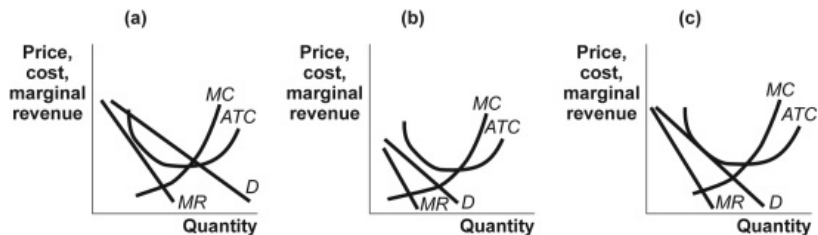
- (a) are price-takers.
- (b) produce goods that are perfect substitutes.
- (c) find it beneficial to advertise.
- (d) do not face any barriers to entry into the industry in the long run.

# Monopolistic competition and profit

Suppose a monopolistically competitive firm is making a profit, but it can increase its profits by increasing output. Then it must be the case that at the current level of output:

- (a) marginal revenue is greater than marginal cost.
- (b) price is less than marginal cost.
- (c) price is less than average total cost.
- (d) marginal revenue is less than marginal cost.

# Monopolistic competition and loss



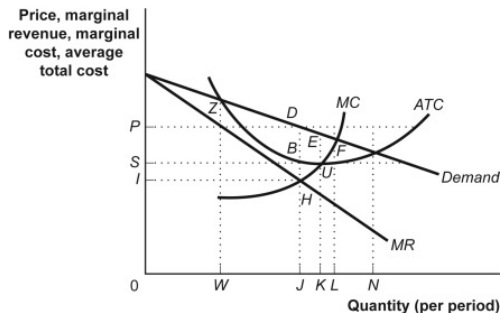
Which of the panels in the figure shows a monopolistic competitor earning a loss in the short run? (a) panel a; (b) panel b; (c) panel c; (d) None of the panels show a loss in the short run.

# Monopolistic competition and average total cost

Toby operates a small deli downtown. The deli industry is monopolistically competitive. Toby tells you he is producing the quantity that minimizes his average total cost. Assuming that Toby is maximizing profits, you know Toby's:

- (a) marginal cost is less than his average total cost.
- (b) marginal cost is less than his marginal revenue.
- (c) price equals his average total cost.
- (d) price is more than his average total cost.

# Monopolistic competition, sr lr



The figure illustrates a firm in the *blank*; in the *blank*, the demand and marginal revenue curves will shift *blank*.

- (a) short run; long run; right
- (b) long run; short run; left
- (c) short run; long run; left
- (d) long run; short run; right

# Product differentiation

Product differentiation under monopolistic competition means that each firm:

- (a) charges the same price.
- (b) maximizes profit where  $MC = P$ .
- (c) faces a downward-sloping demand curve.
- (d) receives economic profits.

## Monopolistic competition; short run

A gas station is operating in a monopolistically competitive market and is currently in short-run equilibrium. Suppose that a fixed cost for this firm decreases. As a result, the firm's price will *blank*, the firm's output will *blank*, and the firm's economic profit will *blank*.

- (a) increase; increase; increase
- (b) increase; increase; decrease
- (c) stay the same; stay the same; increase
- (d) decrease; stay the same; increase