**12/3 One-pager**

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Ed is always a negative number.

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Yes, I also think that the government should monitor the monopoly to ensure that the market can function properly.

**Chapter 13 & 14**

**Outline:**

Monopolistic Competition

* **Monopolistic competition** Market in which firms can enter freely, each producing its own brand or version of a differentiated product.
* no or very low barriers to entry
  + many buyers and many sellers
  + differentiated products that are highly substitutable but not perfect substitutes

Demand Function facing a Monopolistically Competitive Firm

* *Firm’s product is differentiated, there may be close but not perfect substitutes.*
* *If the firm lowers its price a little, it will not steal all customers from competitors.*
* *If the firm raises its price a little, it will not lose all its customers to other firms.*
* The monopolistically competitive firm will face a negatively-sloped, ***relatively elastic demand curve***.

Perfect Competition and Efficiency

* **Productive efficiency** Situation in which a good or service is produced at the lowest possible cost.
* **Allocative efficiency** A state of the economy in which firms produce up to the point where the last unit provides a marginal benefit to consumers equal to the marginal cost of producing it.

What makes a firm successful?

* **Value created relative to competitors due to firm’s ability to**
  + differentiate its product
  + produce it at a lower average cost than competing firms

Oligopoly

* In oligopolistic markets, *the products may or may not be differentiated*.
* *Only a few firms* account for most or all of total production.
* Some or all firms earn substantial profits over the long run because *barriers to entry* make it difficult or impossible for new firms to enter.
* *Examples:* automobiles, steel, aluminum, petrochemicals, electrical equipment, computers

Measures of the extent of competition

* The *concentration ratio* states the fraction of each industry’s sales accounted for by its four largest firms.
  + A 4-firm concentration ratio greater than 40 % indicates that an industry is an oligopoly.
* Herfindahl-Hirschman Index (*HHI*)
  + Sum of squared market shares of all firms:

**HHI = s12 + s22 + . . . .sn2**

* + HHI > 2500 : oligopolistic markets.

Merger Guidelines

* Market definition
  + - *Close substitutes*

Measure of concentration & Merger Standards

* + - *Herfindahl-Hirschman Index (HHI)*

Equilibrium in an Oligopolistic Market

* When a market is in equilibrium, firms are doing the best they can and have no reason to change their price or output.

Equilibrium in oligopoly markets:

**Nash equilibrium (NE)** Set of strategies or actions in which each firm does the best it can given its competitors’ actions.

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* no or very low barriers to entry

Can make sure there are enough companies in the market to compete.

* many buyers and many sellers

Buyers also need a certain number, if there are three companies, there are two buyers, and these two buyers become loyal customers of one company, then the remaining two companies can't sell their products.

* differentiated products that are highly substitutable but not perfect substitutes

This also ensures that the product will not be monopolized, because there will always be alternatives.

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When we talk about efficiency and Allocative efficiency，can provide Perfect Competition and efficiency.

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* + differentiate its product

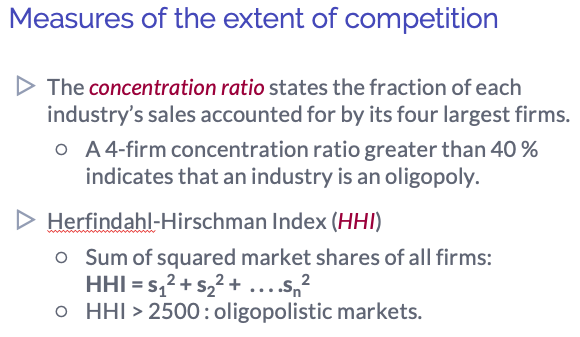
If a competitor makes a copy of the same product, it will not sell very well unless it is modified

* + produce it at a lower average cost than competing firms

It is also a good idea to be able to produce products that are cheaper than competitors' and can be sold at a lower market price



My understanding of Oligopoly is that it is a monopoly due to the difficulty of new entrants in some of the more expensive, technologically demanding, or state-controlled market segments.



Timeline

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