



Monopolistic Competition

Same as in Monopoly:

*Each firm faces its own downward sloping demand curve*

*Each firm sets its own price*

*Each firm sells a product different from that of its competitors*

Same as in Perfect Competition:

There is free entry into the market



Perfect Information: buyers are aware of all firms' prices

There are many firms competing with each other that

◆ *They can't react to a rival's actions*

◆ *They can't make agreements to set prices*

◆ *They must act independently of each other*

A



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C



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n

*Each restaurant can sell more meals by reducing the price*

*Each restaurant sets the price of its meal*

*Each restaurant sells a meal that is different from that of its competitors*

Example: Restaurants



*Nothing prevents more restaurants from opening in an  
area*

*Prices are posted publicly for buyers to compare*

*The large number of restaurant make it so that*

◆ *Each restaurant can't react to a rival's change in price*

◆ *Restaurants can't make agreements with all other restaurants to set prices*

◆ *Restaurants must set prices independently of each other*

Other examples of Monopolistic Competitors:

*Consumer electronics: computers, game consoles,  
cellphones, etc*



*Services: haircuts, auto repairs, landscaping, hockey  
lessons, etc*

Food

Books

Clothes

*Personal grooming products*

*Furniture*

*A market with characteristics of both: Monopoly and Perfect Competition*

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*Each restaurant sets the price of its meal*

*Each restaurant sells a meal that is different from that of its competitors*

# Monopolistic Competition

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*Food*

*Books*

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*Personal grooming products*

*Furniture*