

P_{mc}



MR

=

MC



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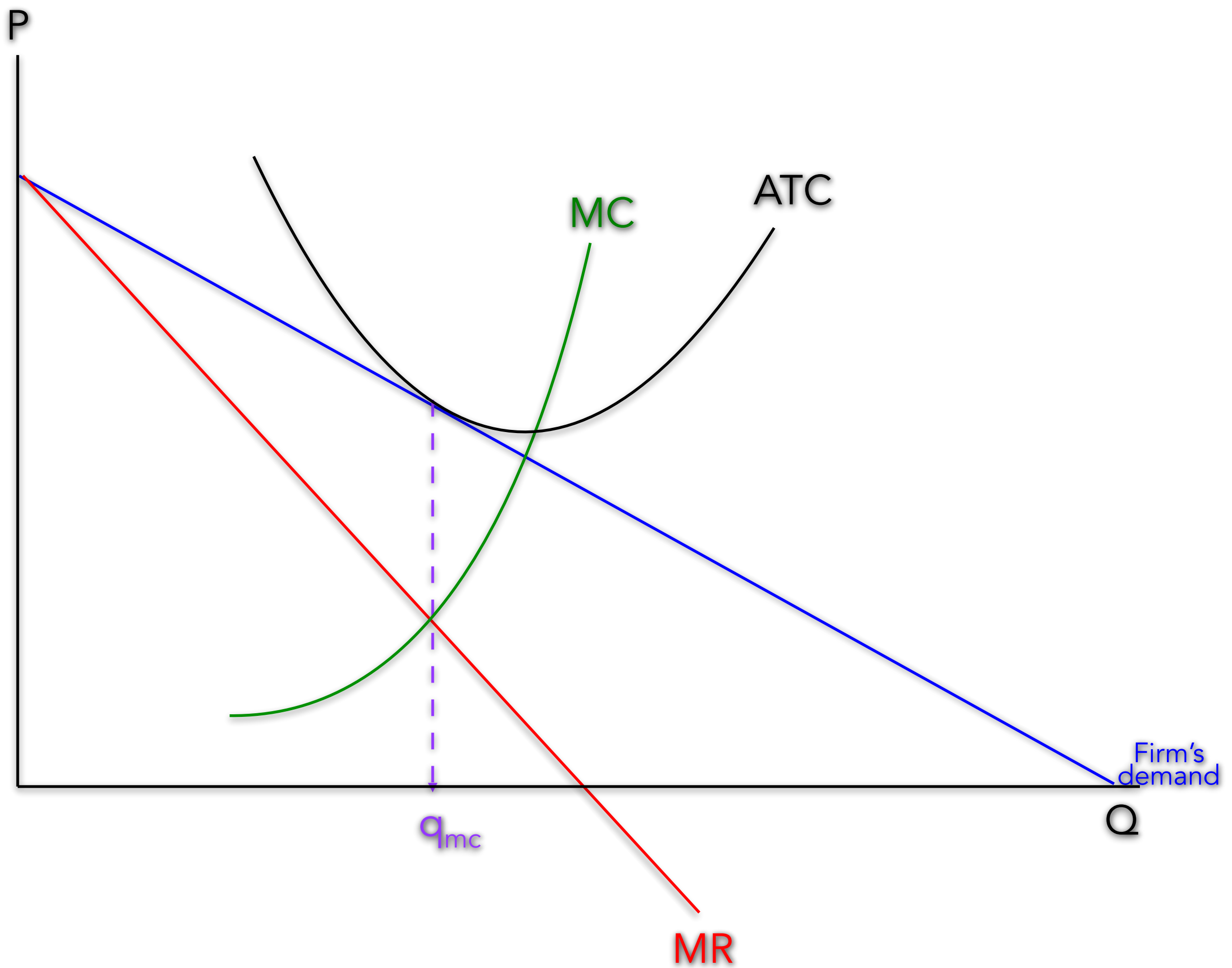
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M







p







S











m















n





S

M







P





Y

Monopolistic Competitors sell at a Price higher than the MC



Monopolists do NOT
produce at the lowest ATC







Monopolists do NOT
produce at full capacity



Full
Capacity



Full
Capacity



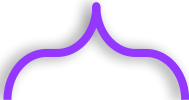
Monopolistic Competitors do
NOT produce at full capacity

Monopolistic
Competitors do NOT
produce at the lowest
ATC





Excess Capacity



P

m





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Q_m

Monopolists sell at a Price higher than the MC

MR

=

MC



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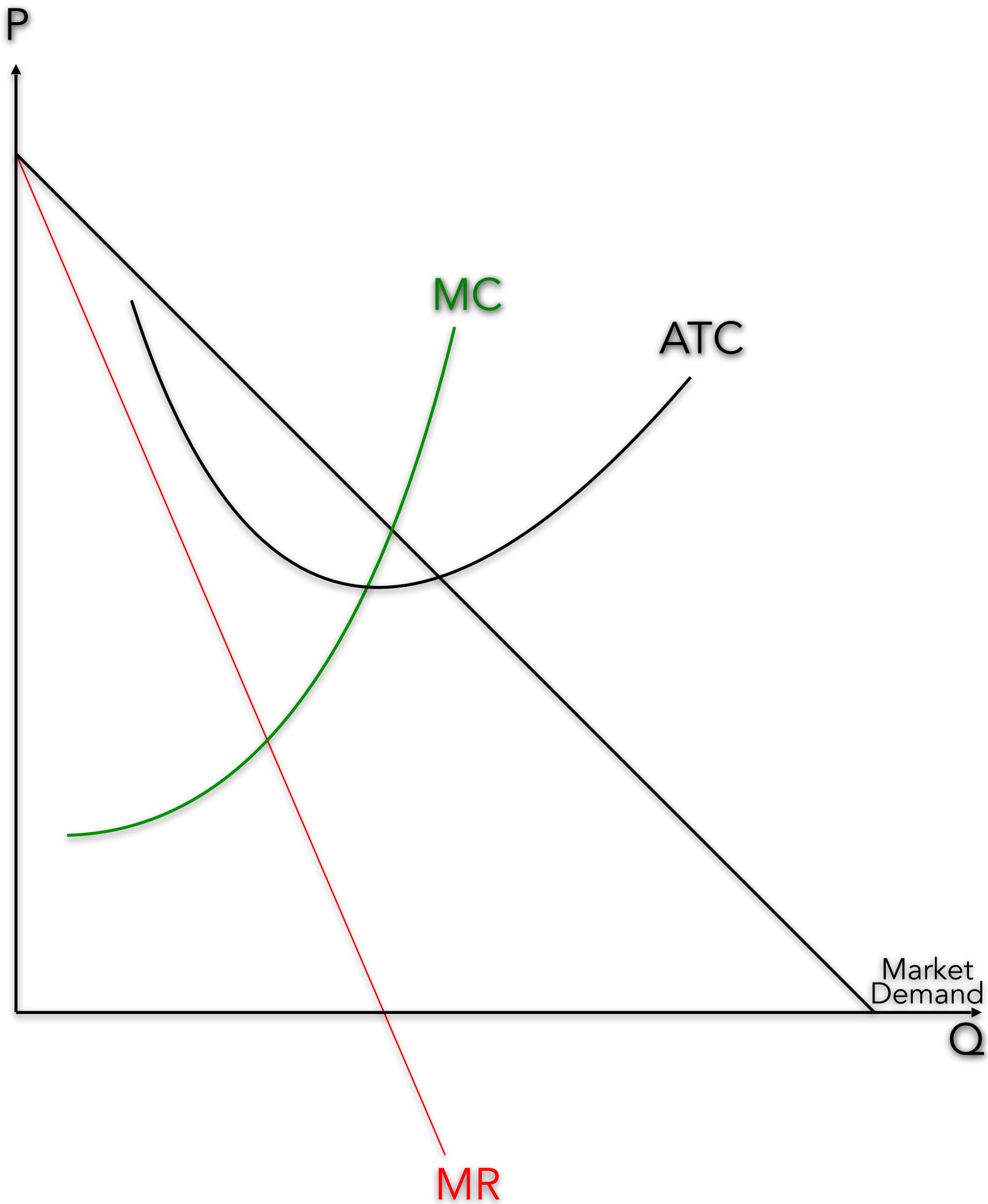
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Profit



Monopolists can make profits in the long run

Monopolistic Competitors can NOT make profits in the long run

ATC

=



Monopolistic Competitors
have unused (wasted) capacity

E













3



3







V







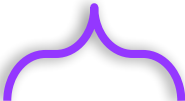








Excess Capacity



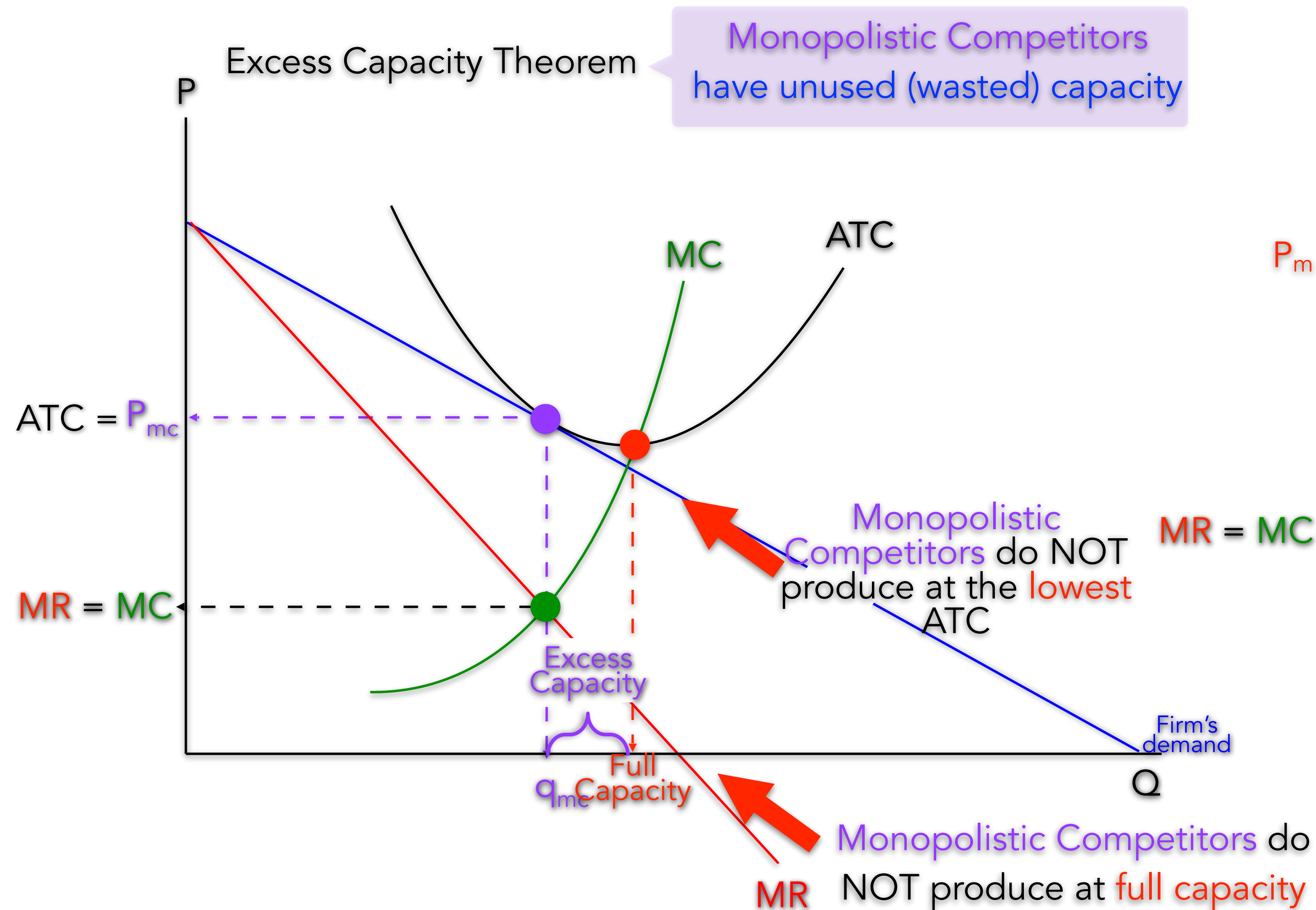
Monopolistic Competition v.s Monopoly

Excess Capacity Theorem

Monopolistic Competition v.s Monopoly

Monopolistic Competitors sell at a Price higher than the MC

Monopolistic Competitors can NOT make profits in the long run



Monopolists sell at a Price higher than the MC

Monopolists can make profits in the long run

