

$P_{mc} \leftarrow \text{---}$

MR

=

MC



—

—

—

—

—

—

—

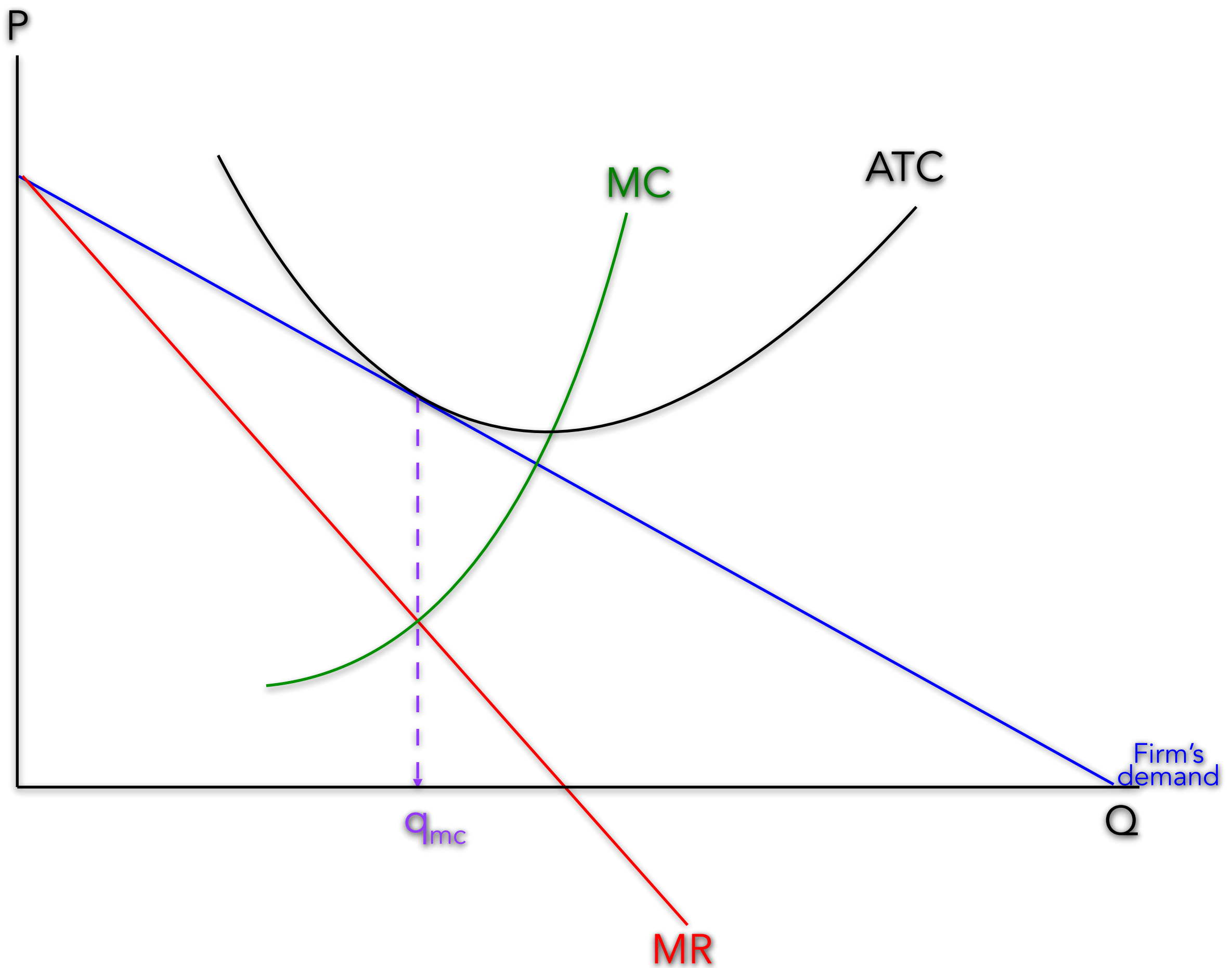
—

—

—

—

—



M







Р







S











m





















S

P

e















m

















Monopolistic Competitors sell at a Price higher than the MC

$P_{pc} = MC$ ————— MR



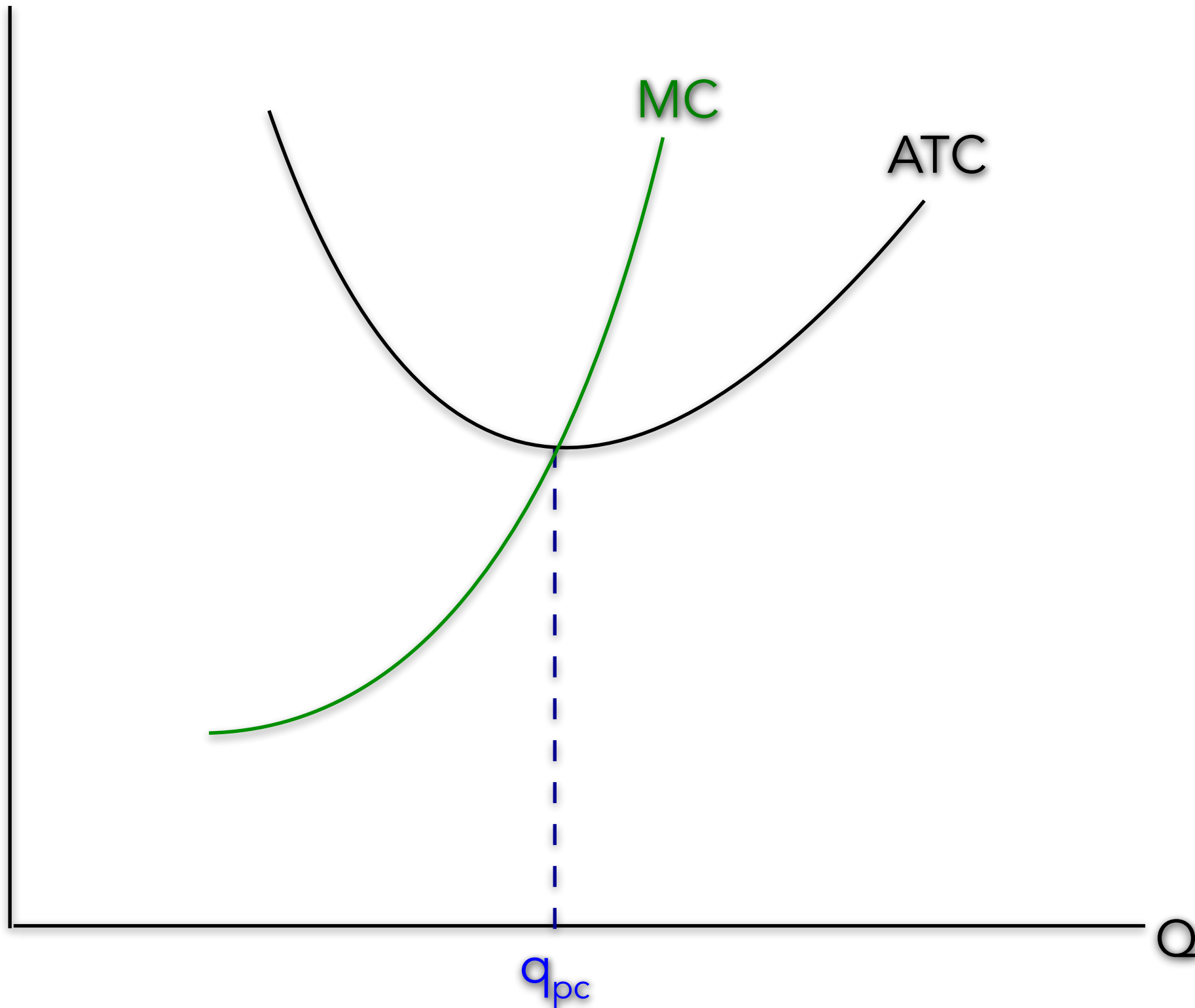
Perfectly Competitive firms
produce at the lowest ATC

Perfectly Competitive firms sell at a Price equal to the MC





P



q_{pc}

Q

MC

ATC





Perfectly Competitive firms

produce at optimal (full)

capacity





Full
Capacity



Full
Capacity



Monopolistic Competitors do
NOT produce at optimal (full)
capacity



Monopolistic Competitors

do NOT produce at the

lowest ATC



Excess Capacity



N



E







S

S



a

P

a







Y

Perfectly Competitive firms have no incentive to advertise because they can sell any amount at the market price

Monopolistic Competitors must either drop the price to increase the quantity demanded (a movement down along demand) or **advertise** to increase demand (a rightward shift in demand)

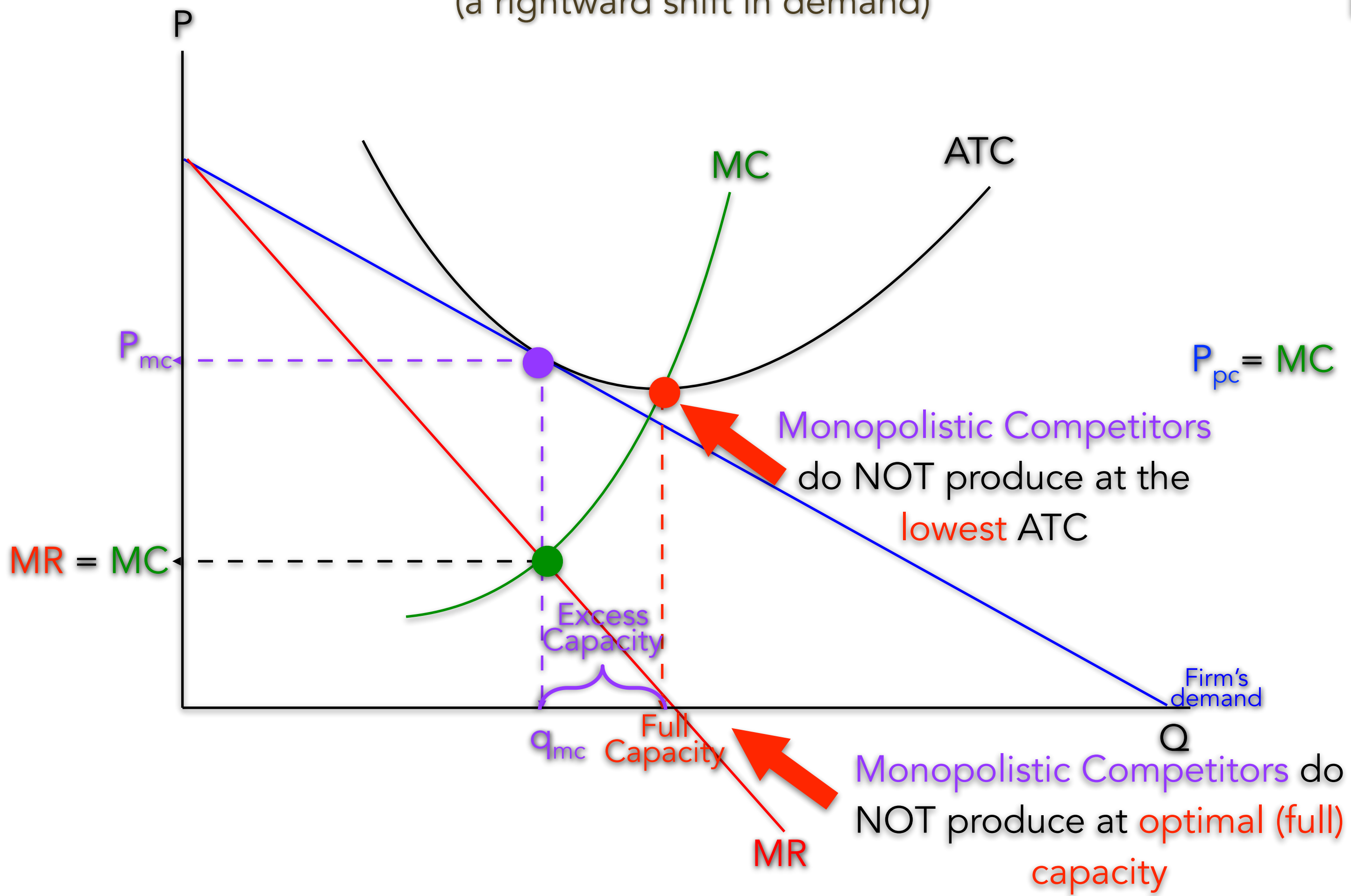
Monopolistic Competition v.s Perfect Competition

NO Excess
Capacity

Monopolistic Competition v.s Perfect Competition

Monopolistic Competitors sell at a Price higher than the MC

Monopolistic Competitors must either drop the price to increase the quantity demanded (a movement down along demand) or advertise to increase demand (a rightward shift in demand)



Perfectly Competitive firms sell at a Price equal to the MC

Perfectly Competitive firms have no incentive to advertise because they can sell any amount at the market price

