

[Monopolistic Competition vs Perfect Competition]

1. It refers to many firms selling similar or ^{slightly} differentiated products.
(ie non identical)

2. Different prices are charged for differentiated products.

3. Low barriers can exist.

4. Prices are not fixed.

5. AR (or demand curve) is downward sloping
(ie comparatively inelastic due to product variation)

6. $AR > MR$

7. In short run there is supernormal profit $\pi > 0$

8. Normal

1. many firms selling identical/homogeneous products.

2. No price discrimination.

3. No barriers to entry & exit.

4. Prices are fixed.

5. AR (or the demand curve) is horizontal
ie perfectly elastic
because of availability of perfect substitutes.

6. $AR = MR = P$

7. In short run there is supernormal profit.

8. Normal profit.

8. In long-run Normal profit

3. Equil / profit max condn
 $MR = MC$ and $P > MR$

10. A firm can never produce at the minimum point of average cost curve.

11. Cannot produce ideal output.

12. There is excess capacity of producing in Monopolistic competitive mkt.

13. Sellers have partial control over prices.

14. advertisement or selling cost

15. imperfect knowledge between buyers and sellers

8. Normal profit.

9. $P = AR = MR = MC$

10. A firm produce at min AC in LR.

11. Output is ideal and efficient

12. No excess capacity (ie perfect allocation of resources).

13. No control.

14. No such cost.

15. Perfect knowledge between buyers and sellers.

Similarities between MC^{\leftarrow} and PC^{\leftarrow} :

1. In both market profits must be 0 in LR.

2. Firms are responsive to demand conditions in SR.

3. Many firms in both the markets

4. There are no restriction to enter the mkt.

Comparison between Monopoly and Monopolistic Competition:

Monopoly

1. extreme condition
1x one seller
2. No competition
3. Absolute control on supply
(No supply curve)
4. Demand is more inelastic
5. single seller → No substitute at all
hence → inelastic
6. No advertisement cost

mc

1. many seller
2. Slightly competitive.
3. Supply curve from many competitive firms.
4. inelastic but less than monopoly.
5. many seller
→ slight differentiated products
→ less inelastic.
6. Advertisement cost.

Similarities in Monopoly and Monopolistic Competition:

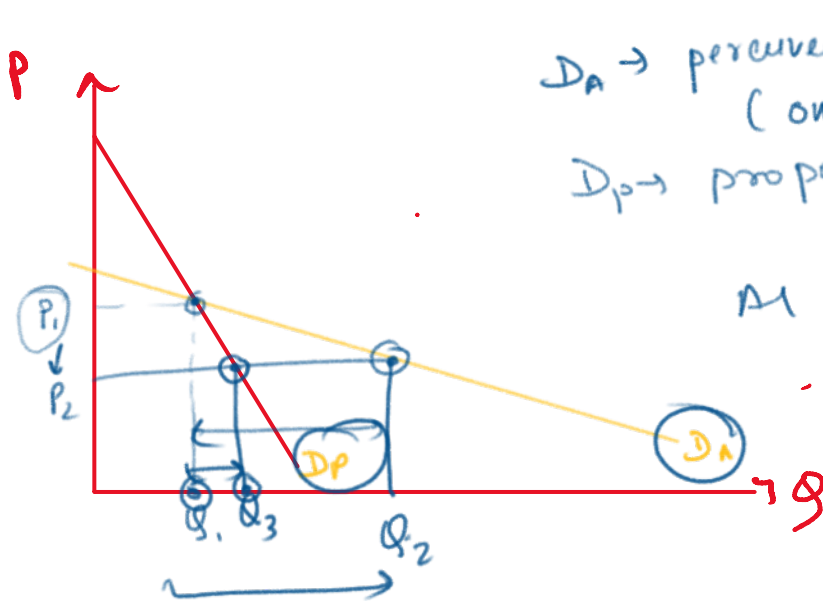
1. Both markets have same equilibrium condition
 $MR = MC$ and MC cuts MR from below.
2. Both markets AR and MR is downward sloping.
3. Both markets MR is below AR .
4. Both markets equilibrium point is below AR

ie, $P > MR = MC$

5. Both markets have excess capacity due to downward sloping AR curve.

6. Both markets producers are price makers.

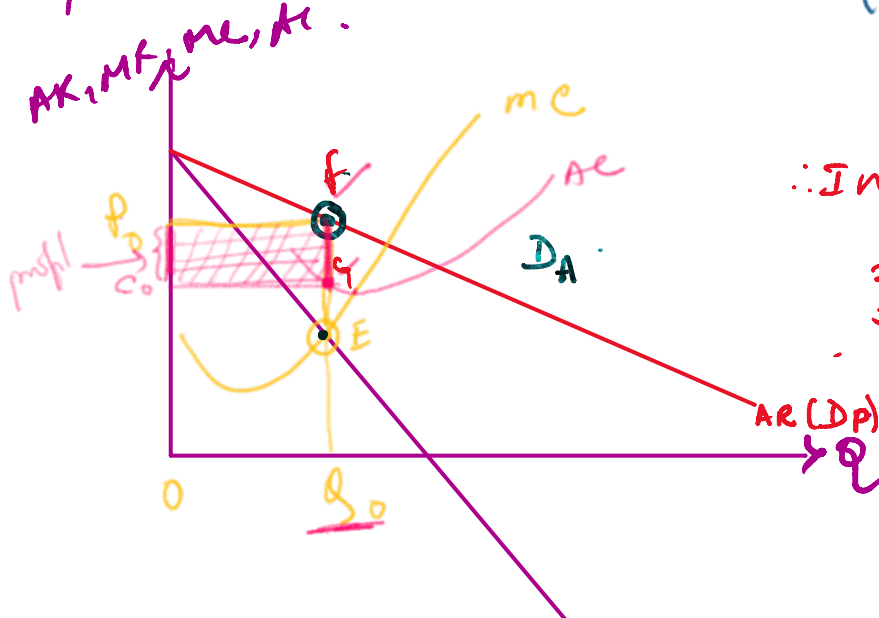
Diagrammatic presentation of Shortrun and Long Equilibrium under Monopolistic Competition



$D_A \rightarrow$ perceived (on basis of assumption)
 $D_p \rightarrow$ proportional (reality)
 At equil always $D_A = D_p$

out of 10 sellers
 ↓ seller 1P all 10 sell ↓ P
 Seller thinks (Q will reduce price & capture market)
 (ie 9 other seller will charge high price)

Diagram in SR equil.



∴ In short run equil:

1. $MR = MC$
2. MC cuts MR from below
3. $P > MR = MC$
4. At equil $D_A = D_p = P_0$

$AR(DP) \leftarrow$ prop dd curve)

5. $TR = OQ_0 F P_0$
 $TC = OQ_0 G_0$

In long run:

AR, MR, MC



$$TC = 0Q_0$$

$$\therefore \text{Profit} = TR - TC = \text{area } \square GP_0FQ \text{ (shaded area)}$$

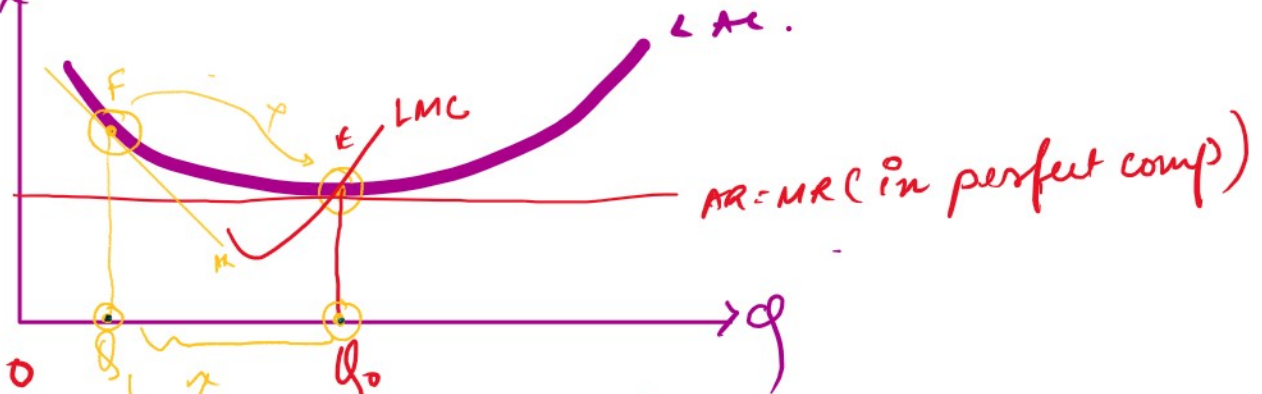
ie in short run there is super normal profit.

1. $MR = MC$
2. $P = MR = MC$
3. $P_0 = D_A = D_P$ at equil
4. In long run $\frac{TR}{TC} = 1$

Excess Capacity under Monopolistic Competition:

(Normal profit).

LAC, LMC, AR



(ideal output) only in PE.

Q_1, Q_0
(is excess capacity)