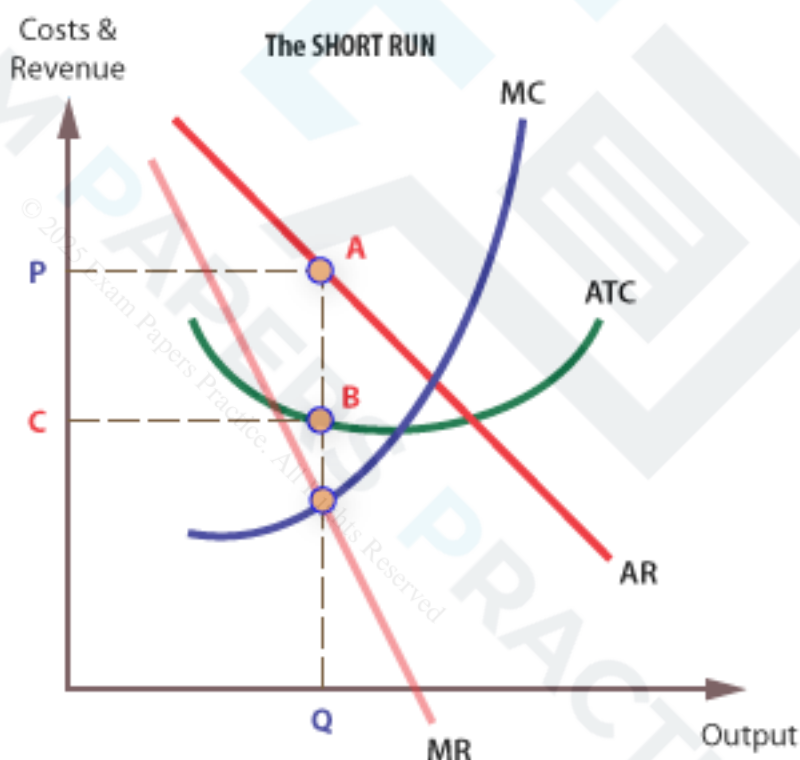
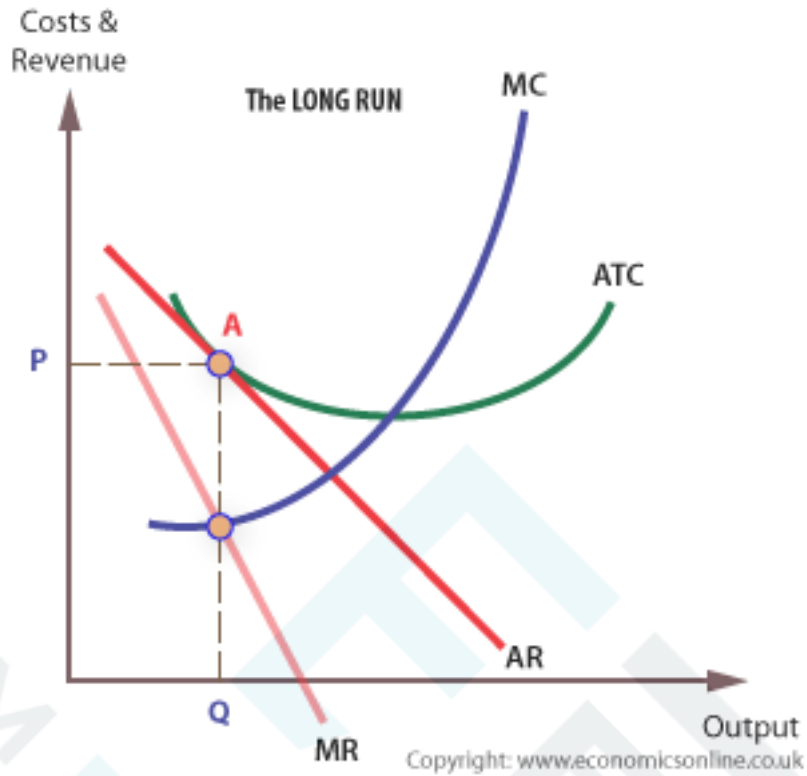


3.4.3 Monopolistic competition

- Characteristics of monopolistically competitive markets
 - Profit maximising equilibrium in the short term and long run
 - Diagrammatic analysis
- Monopolistic competition: very close to perfect competition but with the exception of being slightly differentiated products
 - Firms have some price setting power so the demand curve is downward sloping
 - Assumptions:
 - Many buyers and sellers
 - Firms are price makers
 - Low barriers to entry and exit
 - All firms aim to maximise profits, $MR=MC$
 - There is a small amount of local brand loyalty, but no strong brand names



- In the short run supernormal profits may exist, however, in the long run the profits act as a signal to other firms to enter the industry and since there are no barriers to entry the excessive barriers to entry will soon disappear
- The AR and AC curves are tangential because normal profits exist
- The lack of barriers to entry don't lead to dynamic efficiency because firms are unlikely to be making supernormal profits for long



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