

### Monopolistic competition:

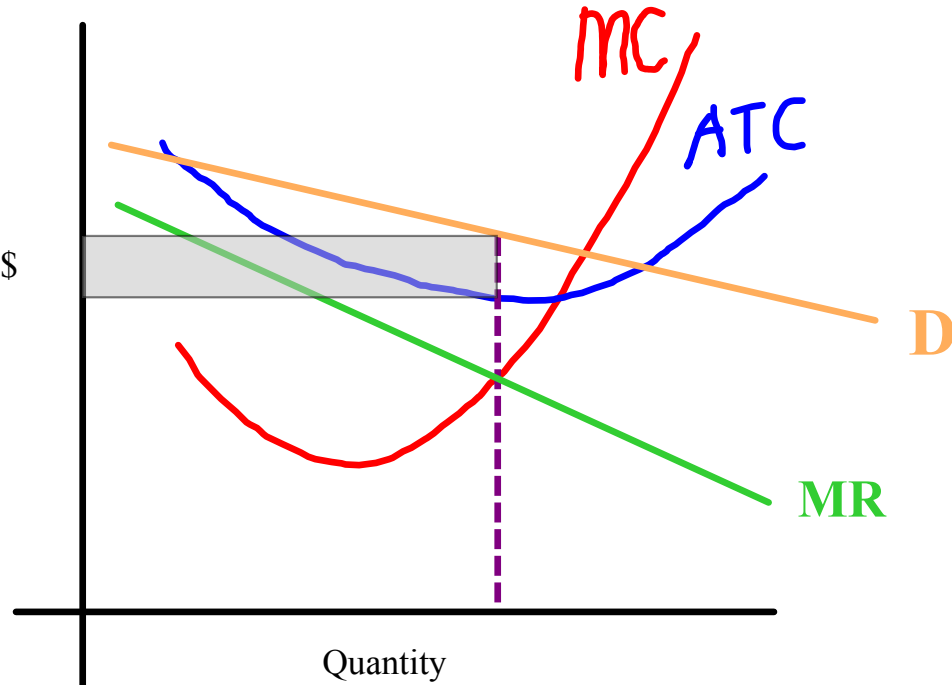
- Relatively large numbers of competitors  
No true interdependence

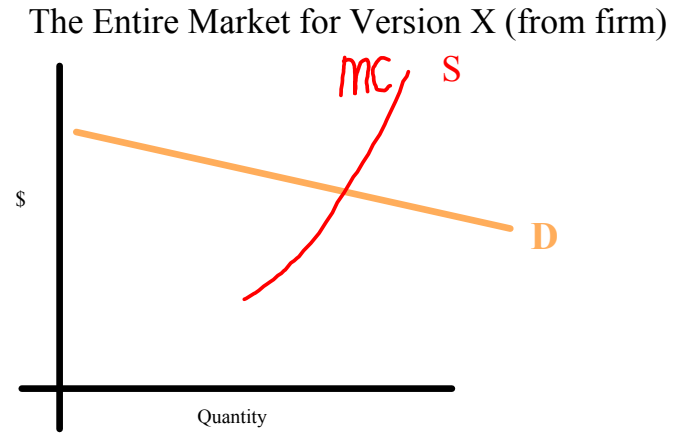
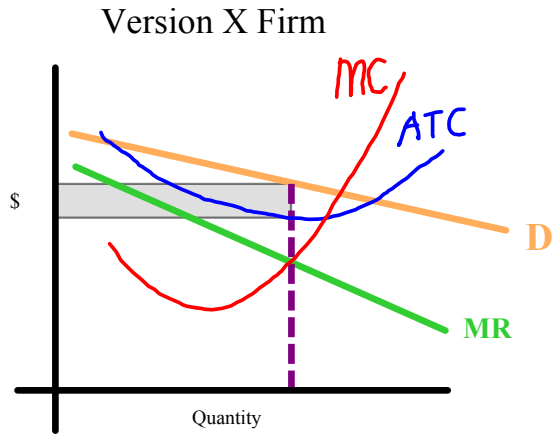
- KEY products differ, but are substitutable  
Each has its own value
  - Features
  - Service
  - Geography
  - Subjective/loyalty appear

=> A small range of control over price

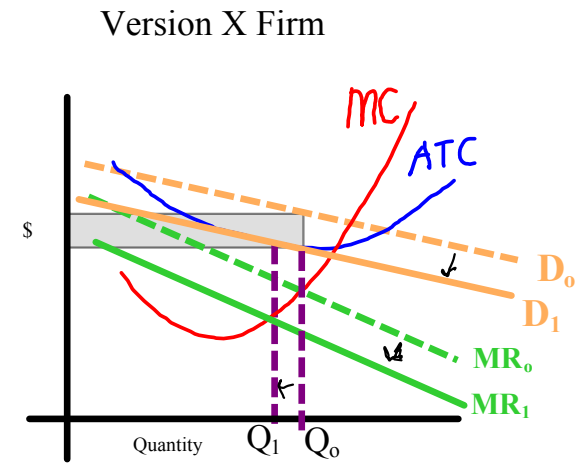
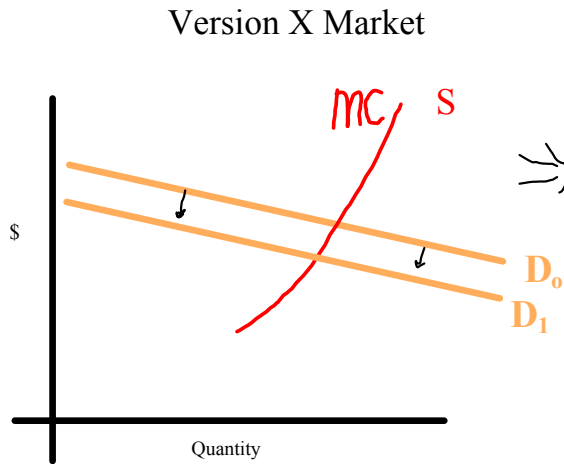
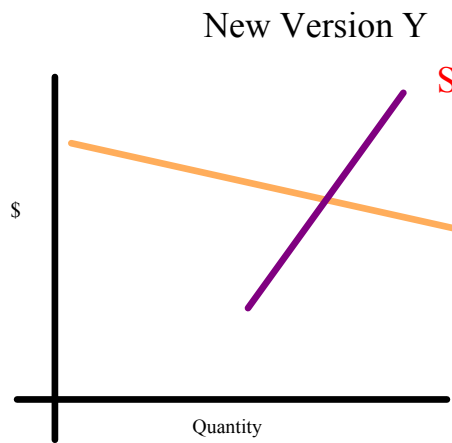
- Fairly easy entry or exit  
Exit fine, entry you need an idea/advantage

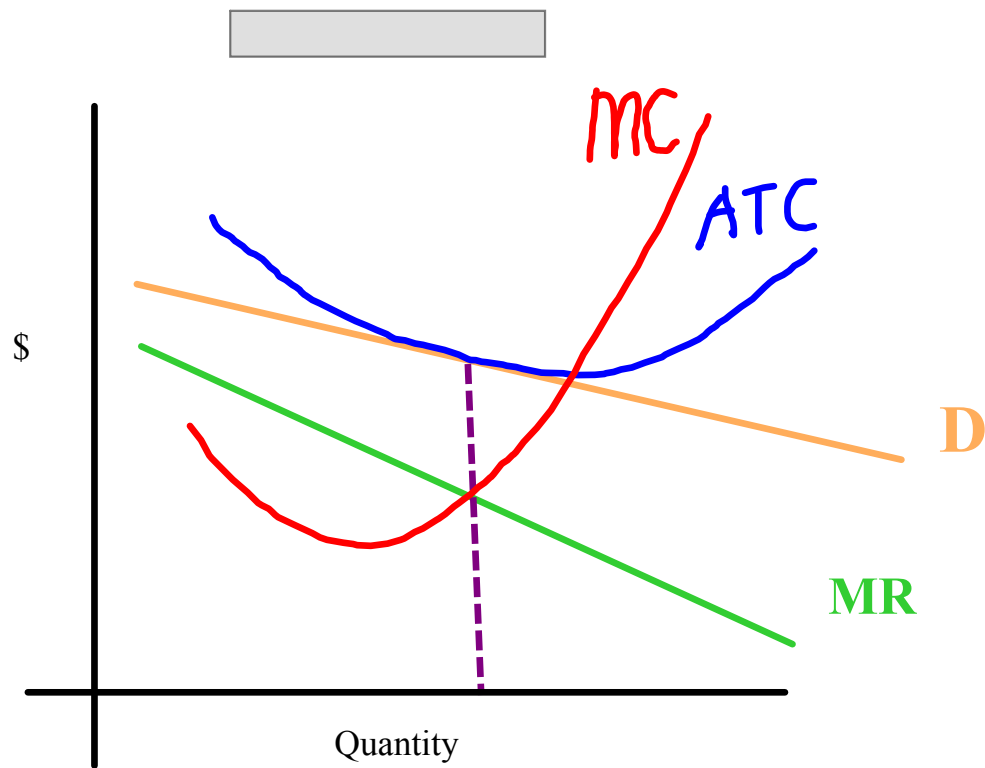
Short run





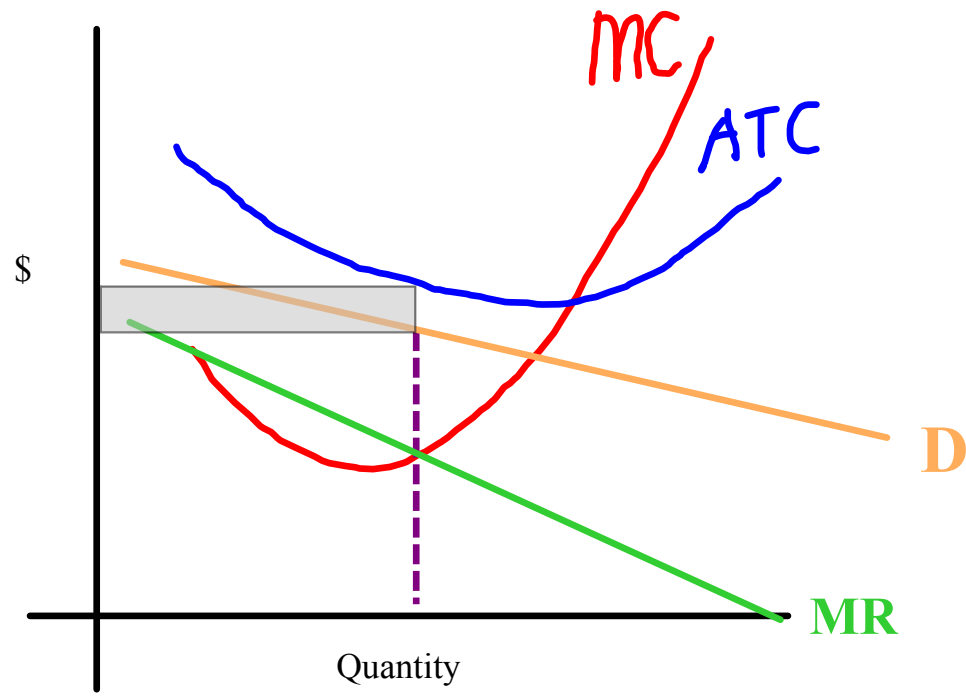
Profit attracts a new entrant or an improvement in old one:  
 The profit ENSUREs that entrants keep trying until one comes that gives a MU/P that  
 steals demand. (various ways to do this)

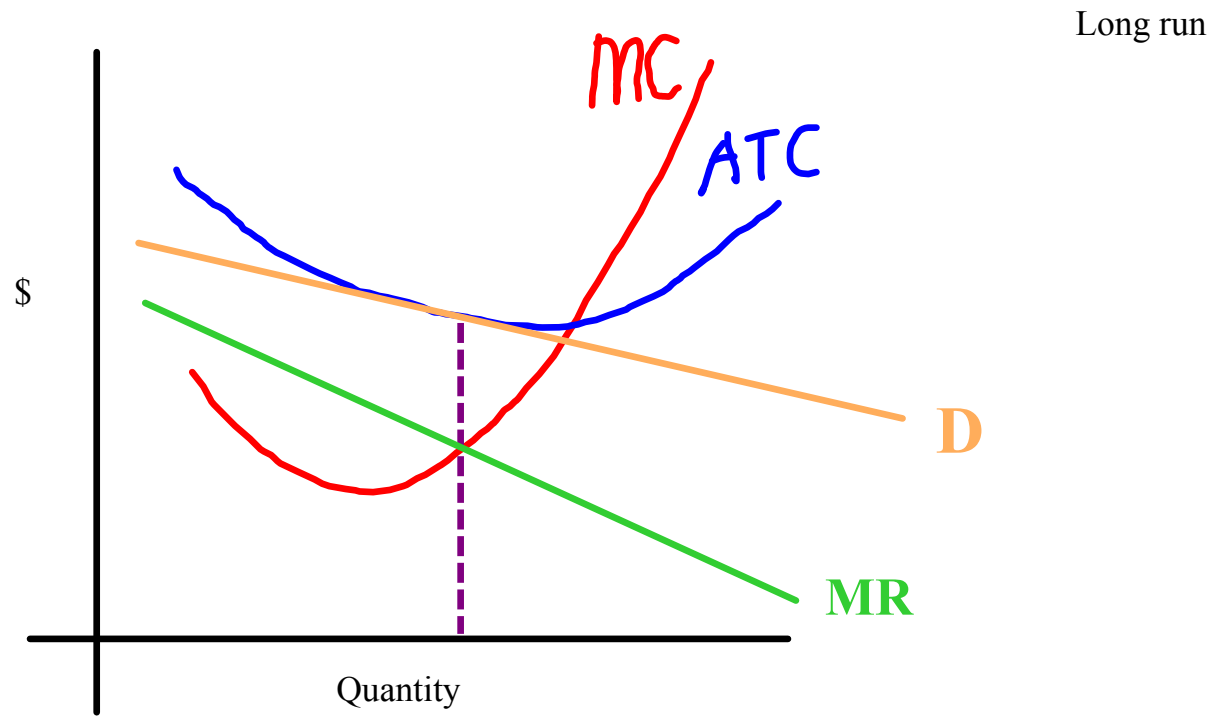




For losing business, substitutes drop out increasing the demand for substitutes

Short run





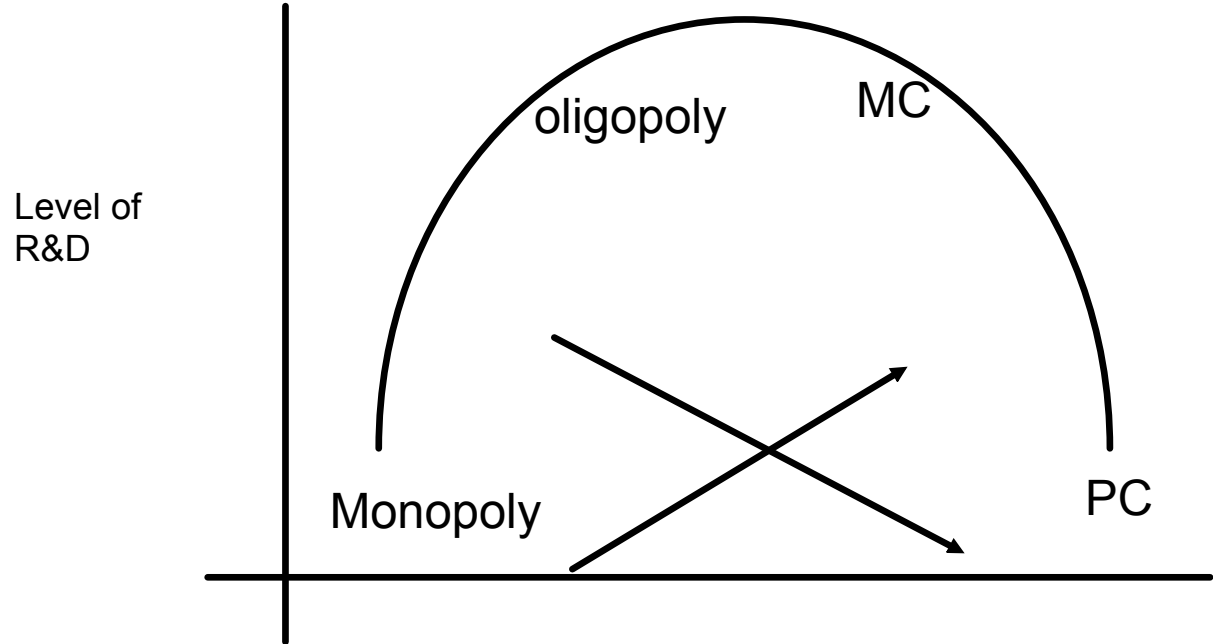
How like monopoly, how like PC?

MU/MP

Survivor looks like this

Inverted U





An argument for somewhat imperfect competition

Level of competition =increases this way====>  
 <===increases this way===Opportunity to profit  
 Monopoly PC



Industry graph?

PC

MC

Oligopoly

Monopoly

Efficient?

- Under production, at Q below minATC
  - o Under allocation
  - o Excess capacity
- Our Q is such that
  - o  $P > MC$
  - o  $P > \text{minATC}$

Verdict:

- Reality => the ambition of every perfect competitor
  - => the least-bad down side for an oligopolist
  - => the story that fits most cases
  
- Advertising: MC drives a lot of it. If it is bad, then it is a vote against MC.
  
- Variety: has value