

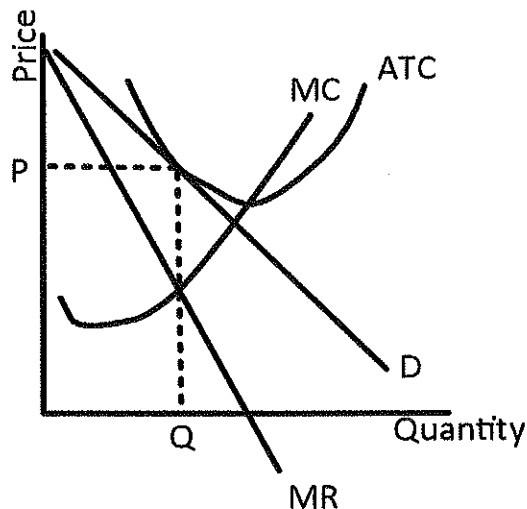
Imperfect Competition: Monopolistic Competition & Oligopoly

Monopolistic Competition

1. HHI = Close to 1 to 1800
2. 4-Firm Ratio = Close to 1 to 60 %
3. Many Firms
4. No barrier to entry/exit
5. Differentiated Substitutes (close subs) → *Creating a Demand slope like that of a monopoly*
6. LR Equilibrium is zero profit
7. Must compete with each other through:
 - a. Advertising
 - b. Quality
 - c. Pricing

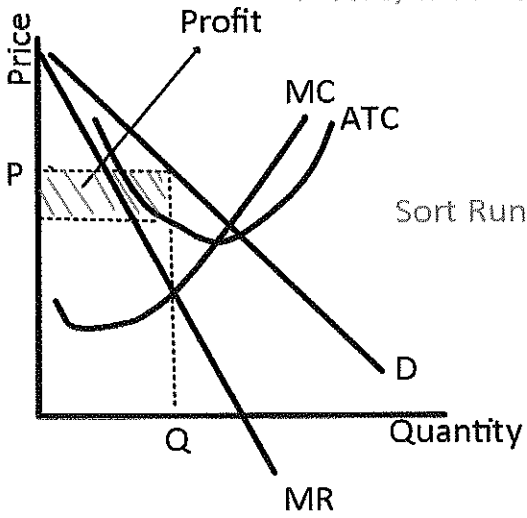
*Single firm has little power over overall market price
No single firm can dominate the market
Collusion is impossible*

Monopolistic Competition at
Long-Run Equilibrium: $P=ATC$



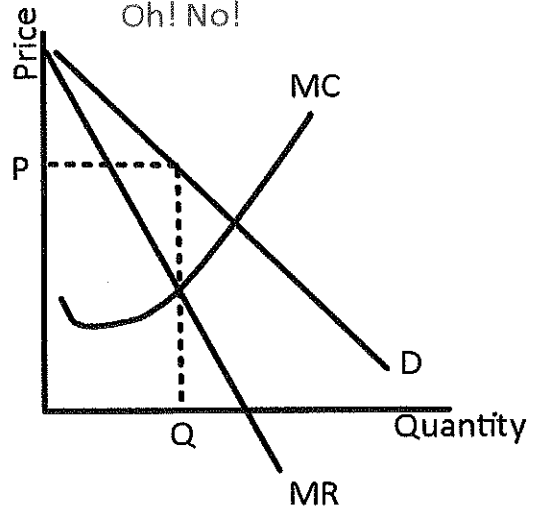
Let's Assume...
Demand jumps (fad)

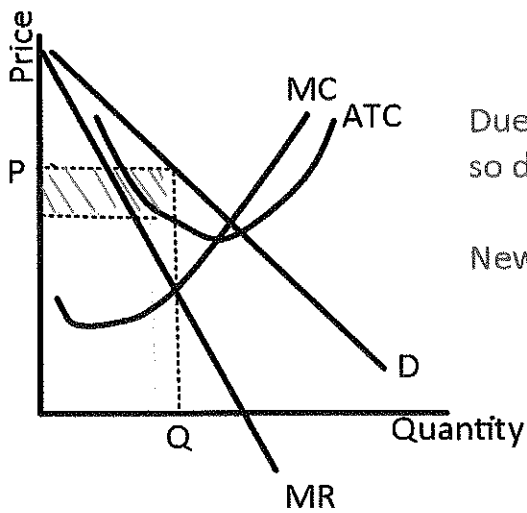
$P > ATC$, thus Positive Profit!!! Woo-Hoo!!!



Sort Run Positive Profit triggers... ENTRY!!!

New firm enters the market & STEALS CUSTOMERS!!!
Oh! No!

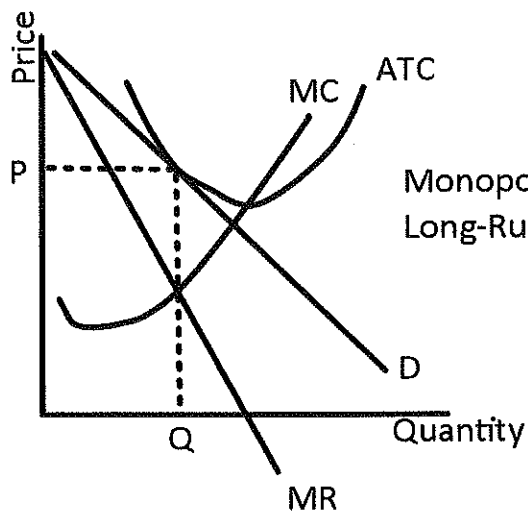




Due to loss of market share, Demand goes down... so does MR!!!

New Profit Max Price and Quantity!!!

Thus... return to Zero Profit...



Monopolistic Competition at Long-Run Equilibrium: $P=ATC$