

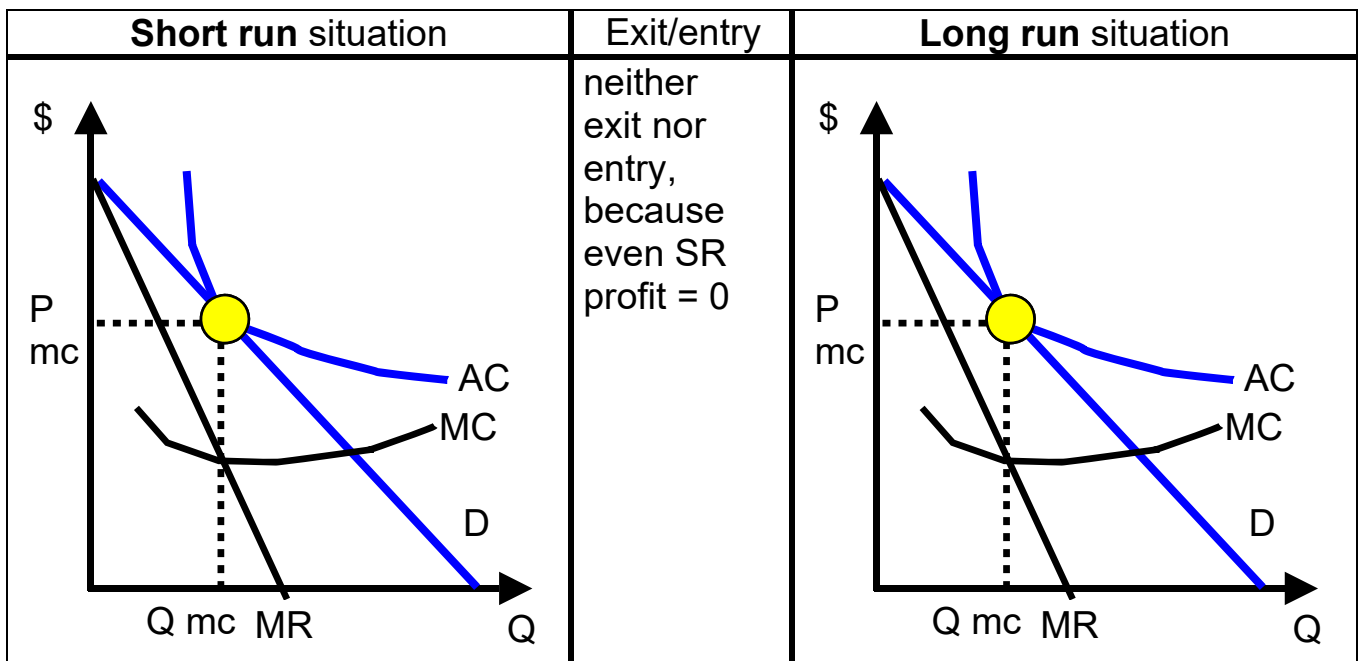
Monopolistic Competition

1 Characteristics

- 11 There is **product differentiation** which means a variety of products for consumers, for example different running shoes.
- 12 A typical firm faces a **downward sloping demand** curve, but there is entry and exit into the market which means a shift of the demand curve.
- 13 **Entry/exit** occurs if there is a profit/loss for the typical firm.

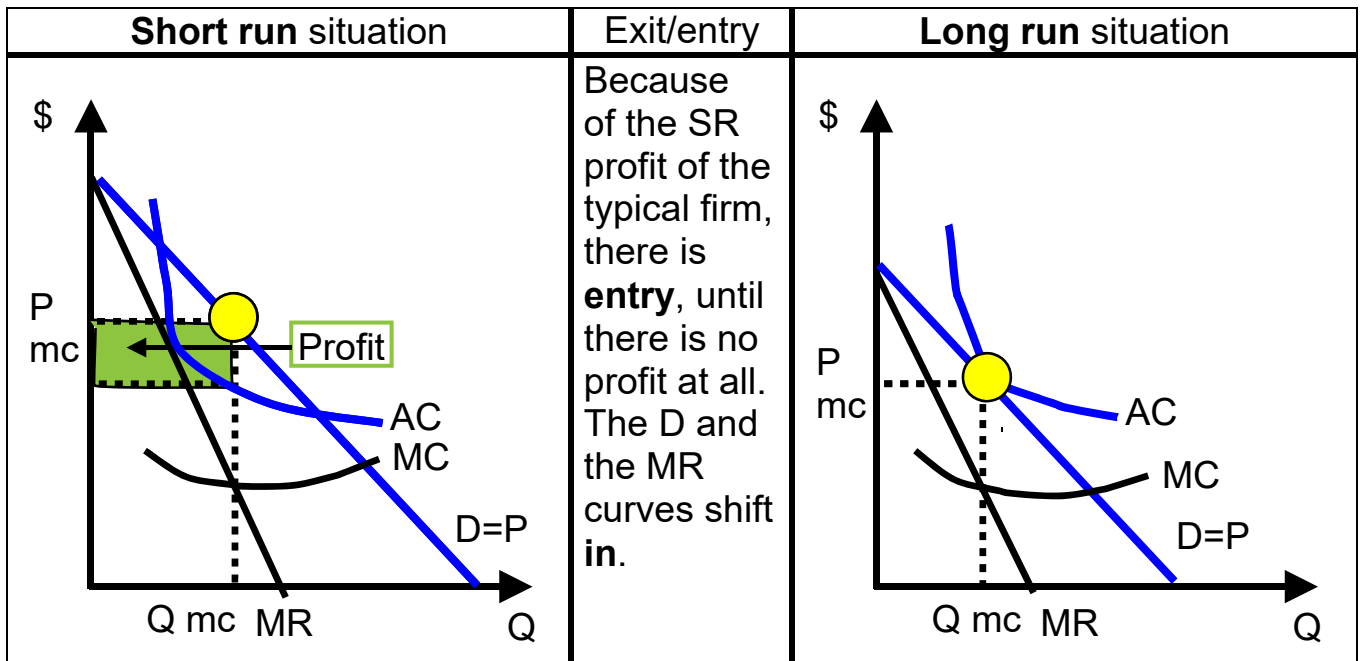
2 Cases of a typical firm

21 Profit = 0

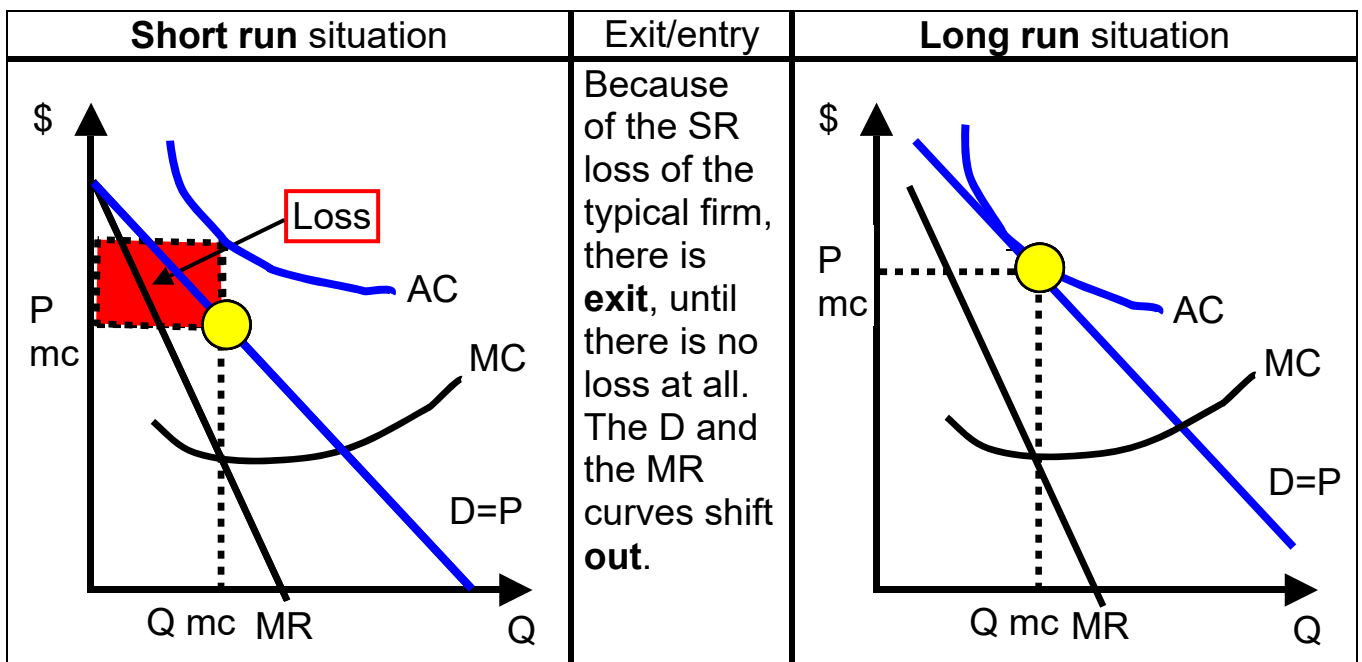


P = Price
 Q = Quantity
 mc = monopolistically competitive
 AC = Average cost (= total cost/quantity)
 MC = Marginal cost
 D = Demand
 MR = Marginal revenue
 SR = Short run

22 Profit in the short run



23 Loss in the short run



3 Comparison monopoly, monopolistic competition and competition

	Price	Deadweight loss	Long run profit
Monopoly	$P > MC$	yes	yes
Monopolistic competition	$P > MC$	yes	no
Competition	$P = MC$	no	no