# Monopolies, markets and competition

# What is a 'Market'

A market is a medium that allows buyers and sellers of a specific good or service to interact in order to facilitate an exchange.

# Market structure

Market structure is the focus real-world competition.

**Market structure** refers to the physical characteristics of the market within which firms interact.

How do firms and people buy and sell?

# Market structure

Market structure involves the number of firms in the market and the barriers to entry.

Monopolistic competition lie between these two extremes.

# Monopolistic competition

***Monopolistic competition*** is a market structure in which there are many firms selling differentiated products.

There are few barriers to entry.

# Characteristics of Monopolistic Competition

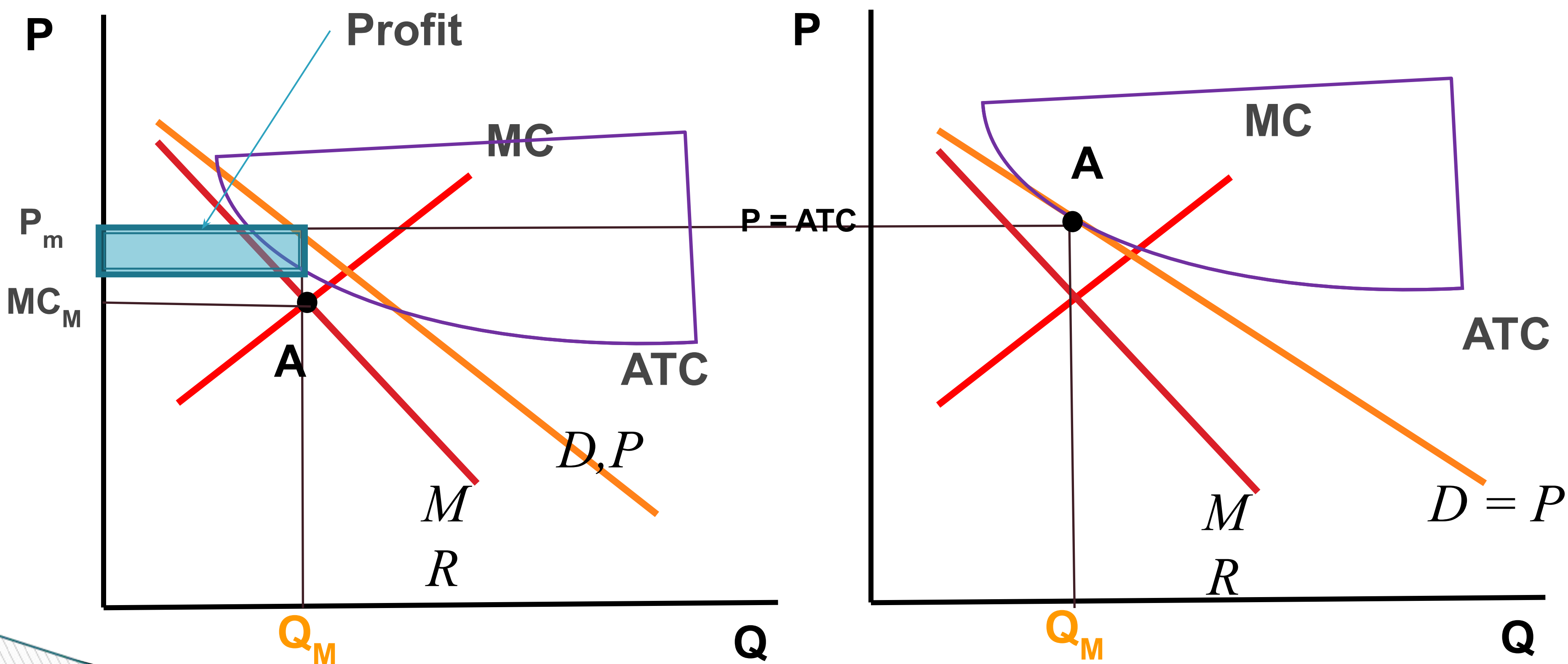
## Three distinguishing characteristics:

1. **Many sellers** that do not take into account rivals' reactions – each firm has a small share of the market
2. **Lack of Collusion** with so many firms it's hard to get together and collude
3. **Independence** because of so many firms, each one acts independently. No firm takes into account the actions of other firms.

# Short Run and Long Run in Monopolistic Competition

**Single Monoply Firm**

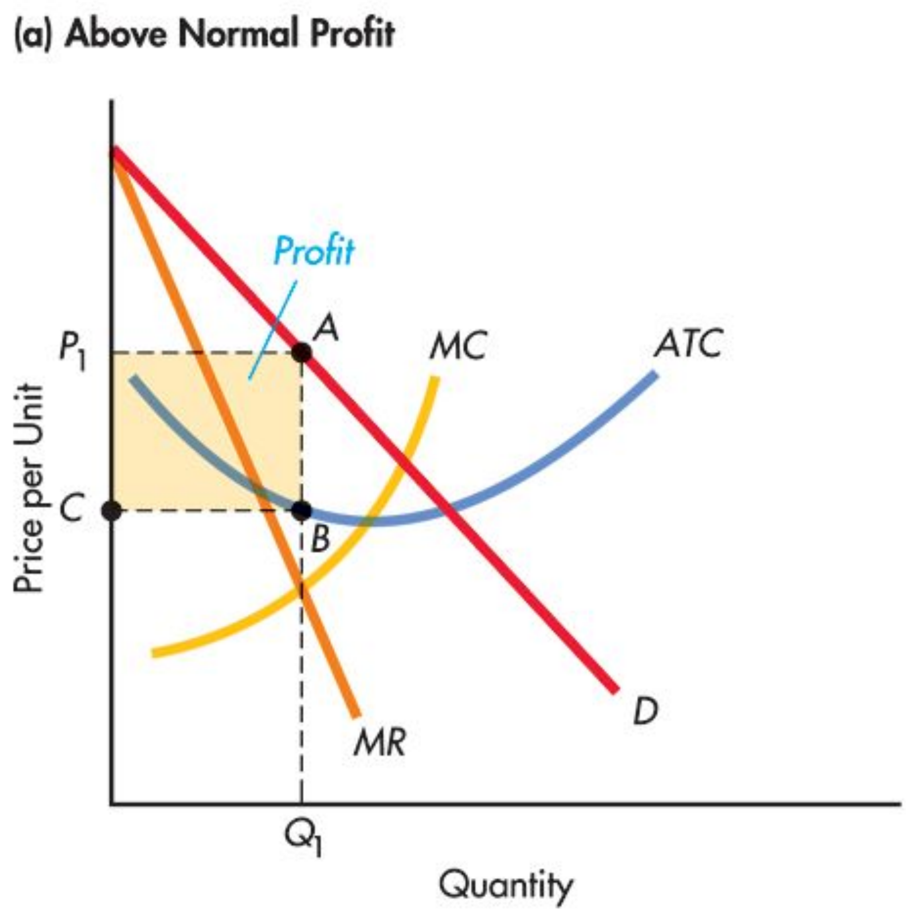
**Single Monopolistically Competitive Firm**



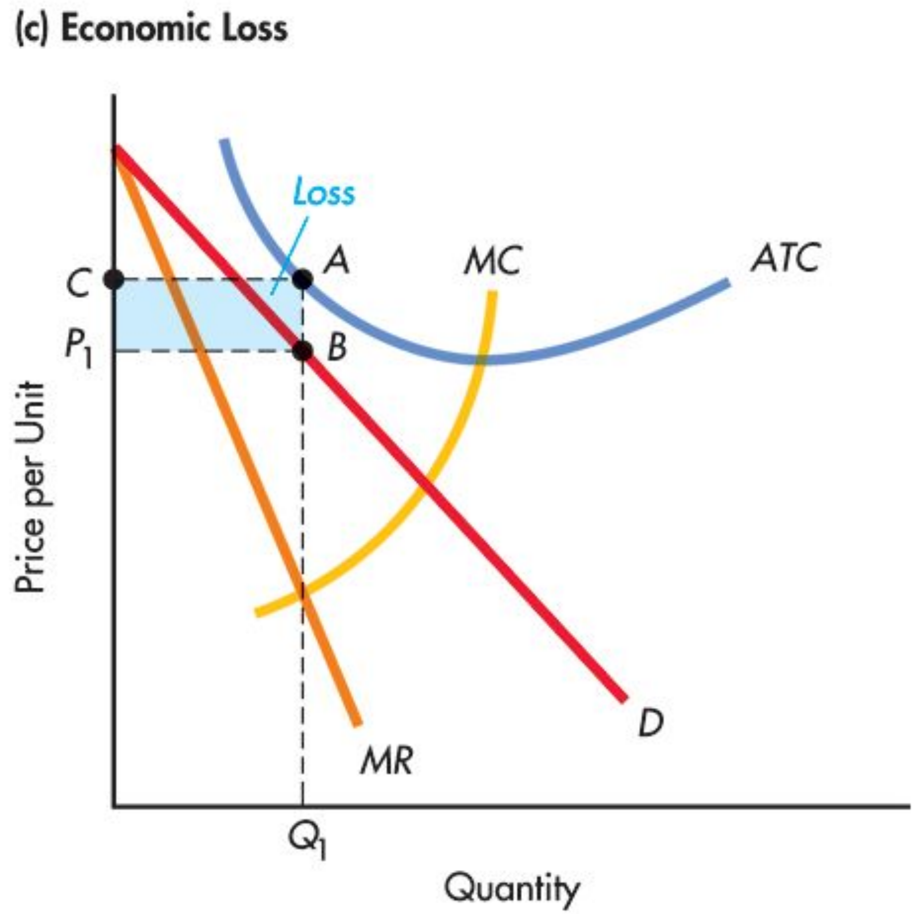
# Short-Run, Output, Price, and Profit of a Monopolistic Competitor

- Like a monopoly,
    - The monopolistic competitive firm has some monopoly power so the firm faces a downward sloping demand curve
        - **Marginal revenue is below price**
    - At profit maximizing output, **marginal cost will be less than price**
- Like a perfect competitor, **zero economic profits** exist in the long run

# A Monopolistically Competitive Firm: Above Normal Profit



# A Monopolistically Competitive Firm: Economic Loss



Thank you for your attention