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.

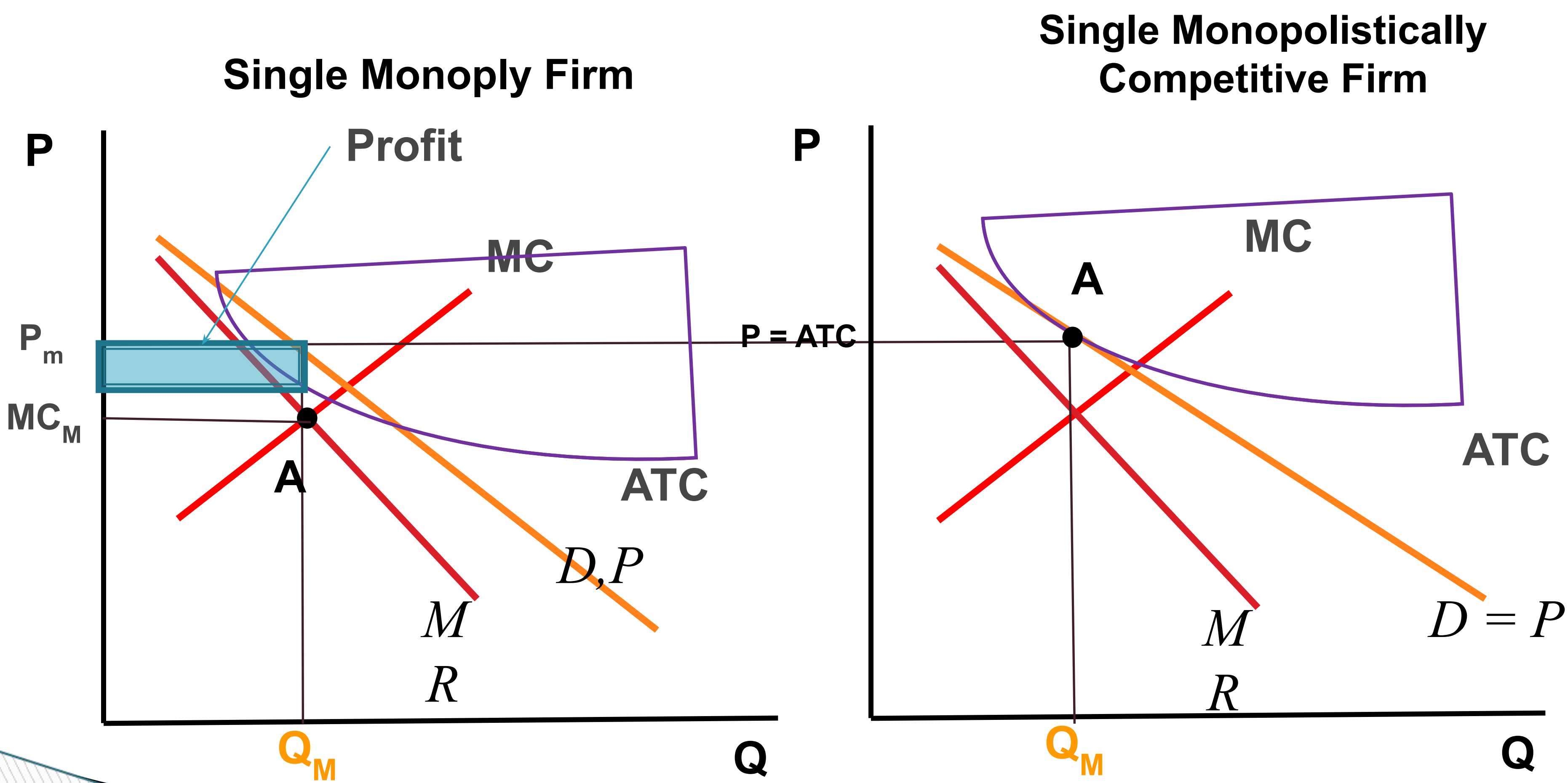
There are few barriers to entry.

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.

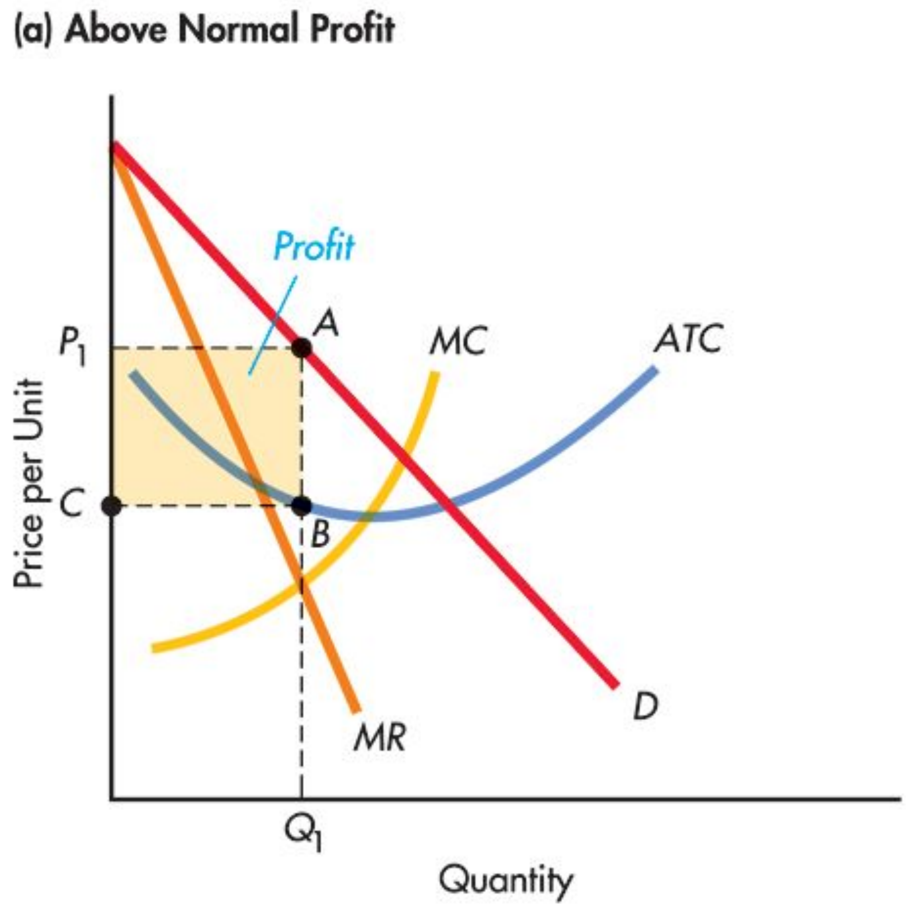
Short Run and Long Run in Monopolistic Competition



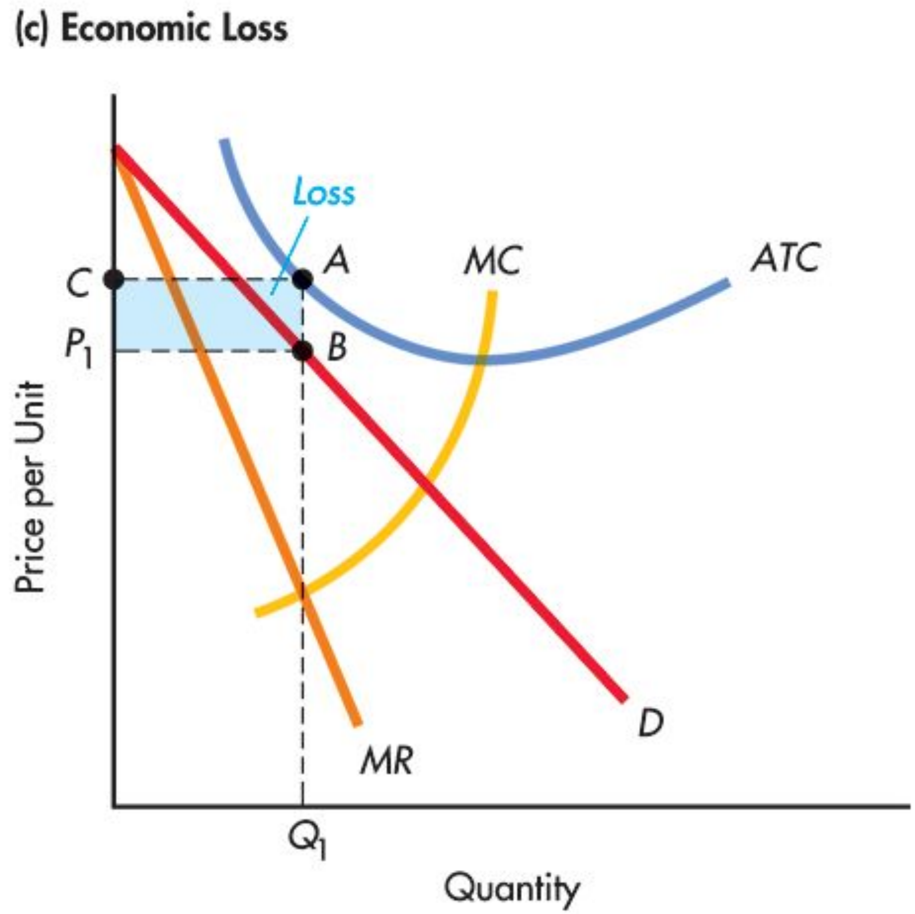
Short-Run, Output, Price, and Profit of a Monopolistic Competitor

- 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