

[CH 17] LONG RUN vs SHORT RUN

MONOPOLISTIC COMPETITION

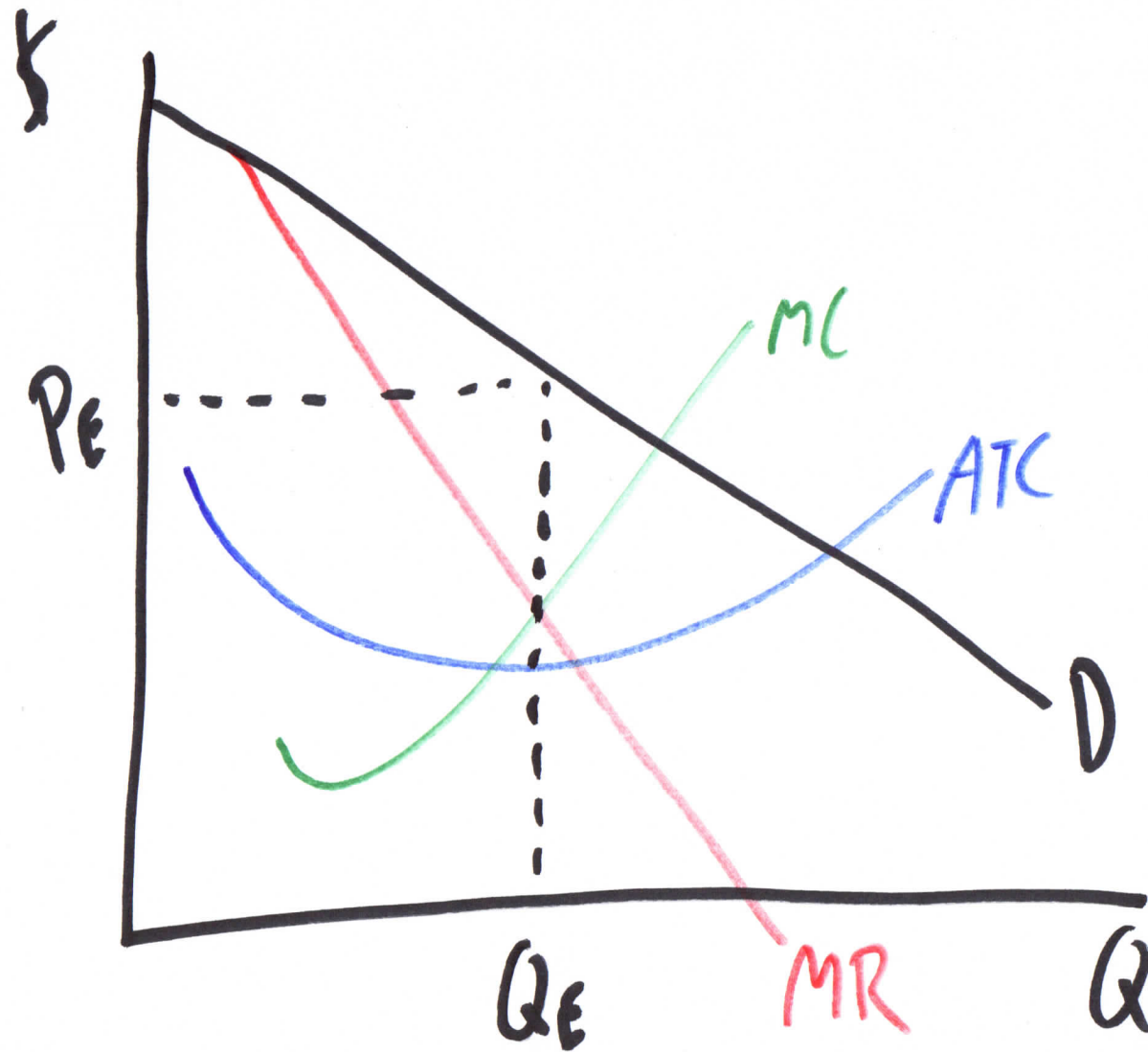
- FIRMS w/ MONOPOLY ON A BRAND IN COMPETITION w/ OTHER BRANDS
- MANY SELLERS
- LONG RUN: EASY ENTRY + EXIT

LONG RUN - FOR PERFECT COMP.

ALSO

- ① NO FIXED COST
- ② EXIT IF $\text{PROFIT} < 0$
- ③ ENTER IF $\text{PROFIT} > 0$
- ④ LR EQUILIBRIUM $\rightarrow \text{PROFIT} = 0$

SR EQ: MONOPOLISTIC COMPETITION



OLIGOPOLY OR MONOPOLISTIC COMPETITION FACTS

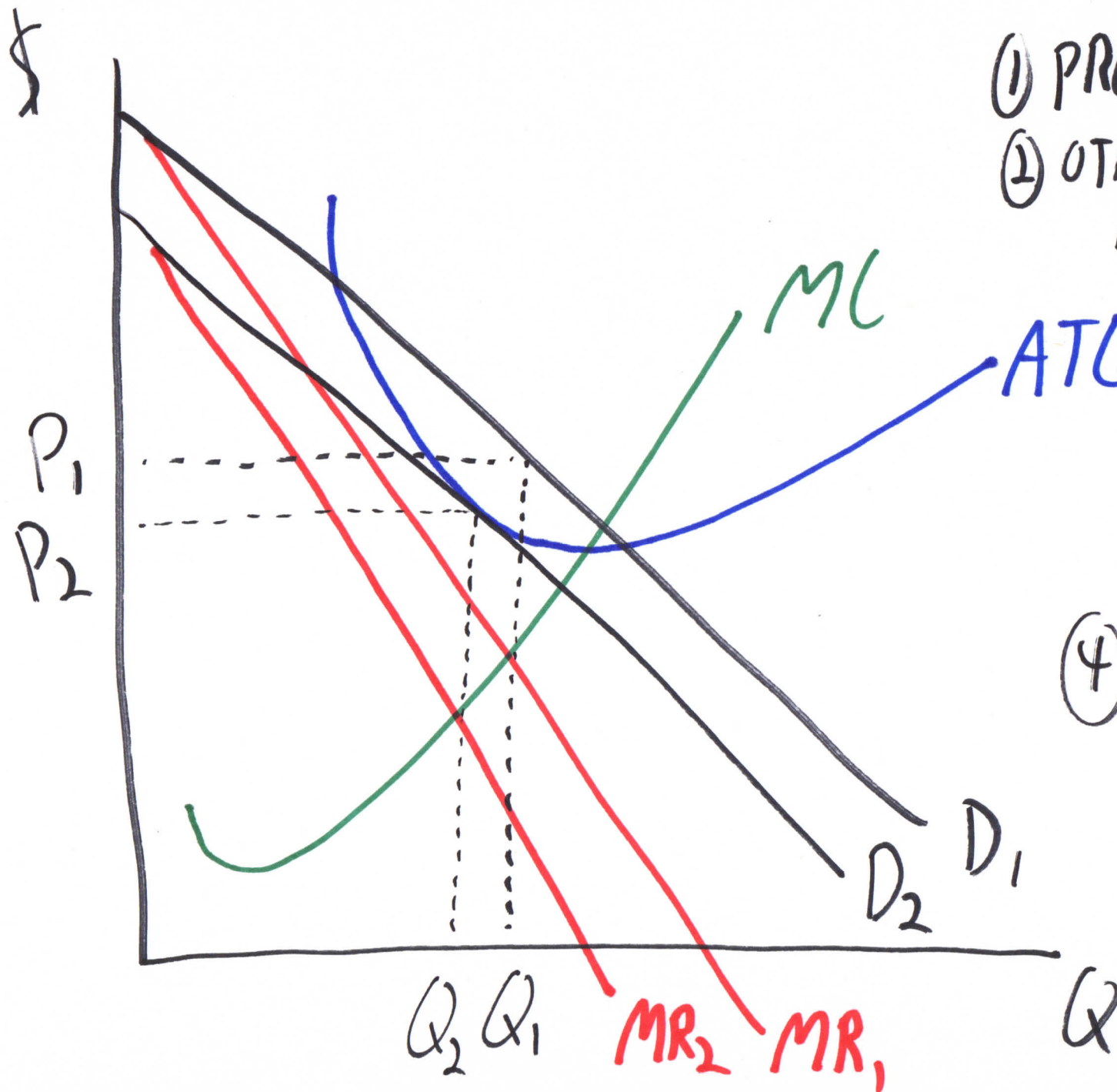
- PRICE (AVERAGE) IS LESS THAN MONOPOLY PRICE, BUT MORE THAN A PERFECTLY COMPETITIVE PRICE
- QUANTITY (AVERAGE) IS USALLY MORE THAN MONOPOLY QUANTITY BUT LESS THAN QUANTITY IN PERFECT COMPETITION

ENTRY OR NO ENTRY

		ENTRANT	
		ENTER	STAY OUT
INCUMBENT	FIGHT $P \downarrow$	E: -10 I: 0	<u>E: 0</u> I: 0
	ALLOW $e P \rightarrow$	<u>E: 2</u> <u>I: 10</u>	E: 0 <u>I: 14</u>

(N)

- MONOPOLISTIC COMPETITIVE FIRM



① PROFIT

② OTHER FIRMS ENTER

③ DEMAND SHIFTS INWARDS

!
④ LONG-RUN EQ. WHEN PROFIT = 0

CH. 17 EXTERNALITIES OF MARKET ENTRY

- BUSINESS STEALING EXT.

DECREASING DEMAND FOR
SMALL OTHER FIRM'S GOODS
(-) FOR PRODUCER SURPLUS

- PRODUCT-VARIETY EXT.

BIG NEW BRAND MAY BE
FAVORED BY SOME BUYERS
(+) FOR CONSUMER SURPLUS

- GOV'T SUBSIDIZE MARKET
ENTRY AND ELIMINATE
LOSSES OF ENTRY

ADVERTISING

- SHIFT OUT DEMAND FOR YOUR PRODUCT

BAD: - MANIPULATE TASTES +
CREATE UNNECESSARY DEMAND
- PSYCHOLOGICAL NOT INFORMATIVE
- IMPEDES ENTRANTS
UNNECESSARY BRAND LOYALTY

GOOD: - INFORMATION
- PRODUCTS (NEW, BENEFITS)
- DISCOUNTS
- FOSTERS COMPETITION
- NEW ENTRANTS
- EYEGLASSES
- SIGNAL OF QUALITY

TABLE 17.1 TABLE 1