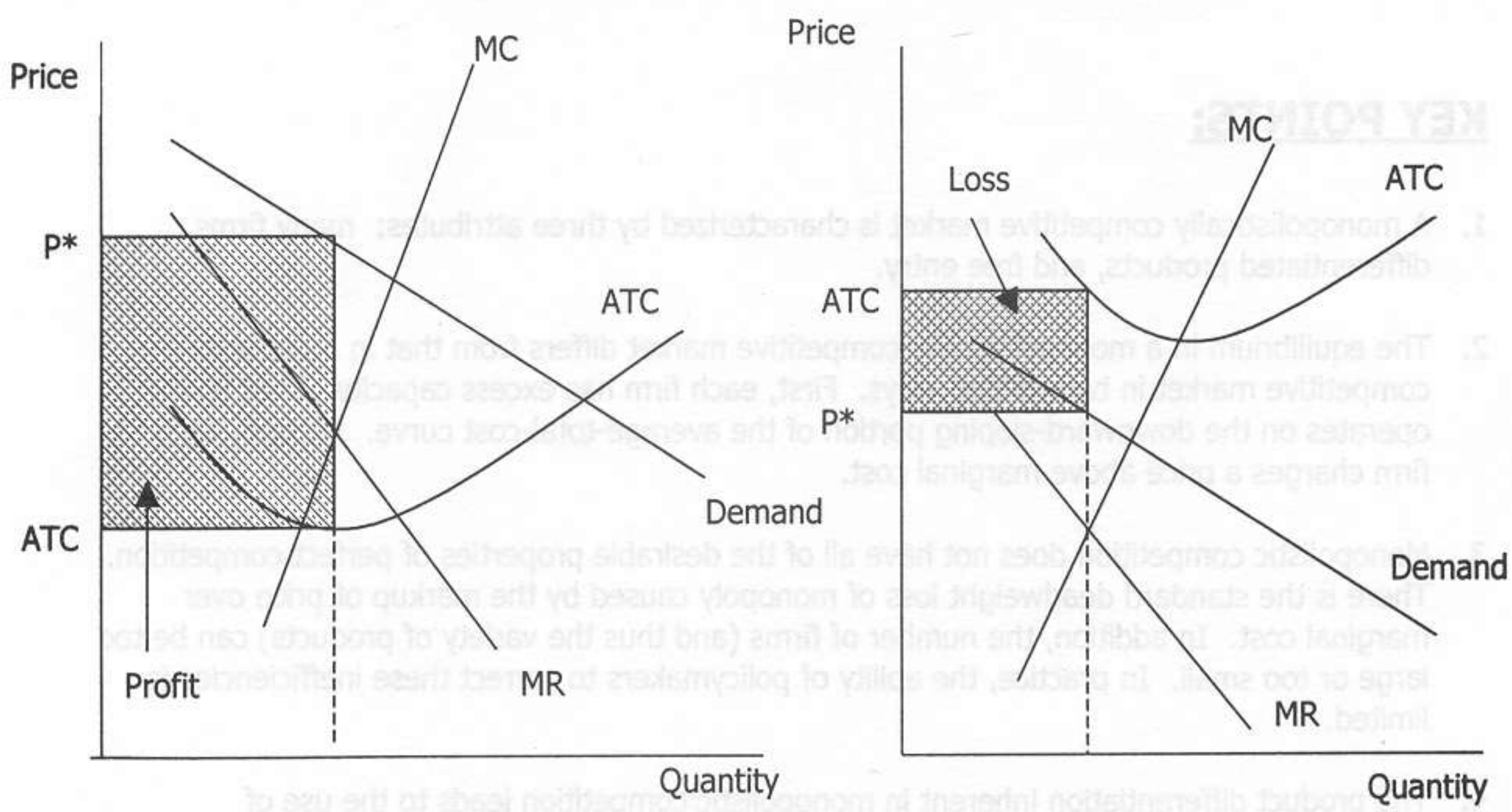
Monopolistic Competition

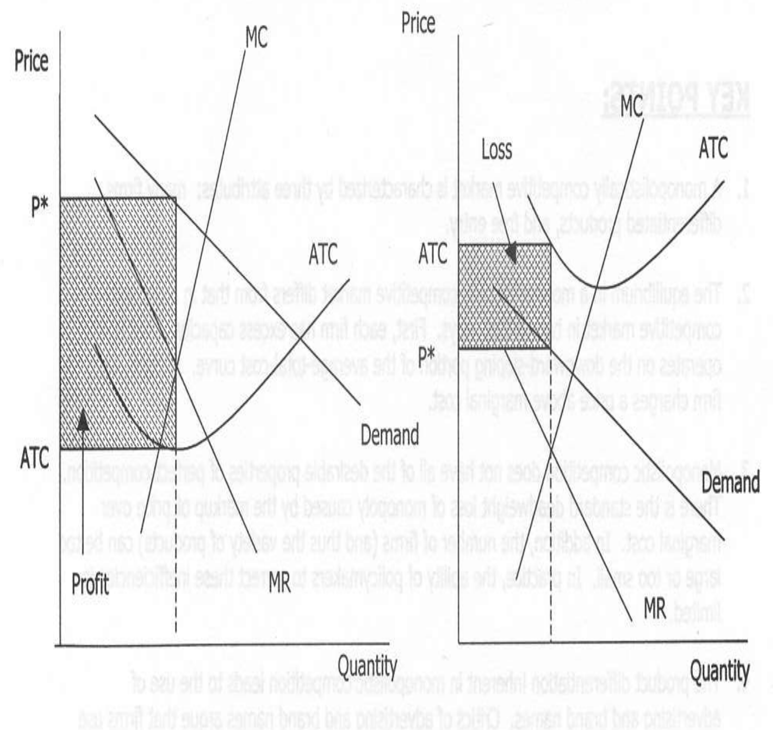
- Many sellers
- Product Differentiation
- Free Entry
- Each firm faces a downward sloping demand curve
- Possesses Short Run & Long Run

Monopolistic Competition: Profits & Losses



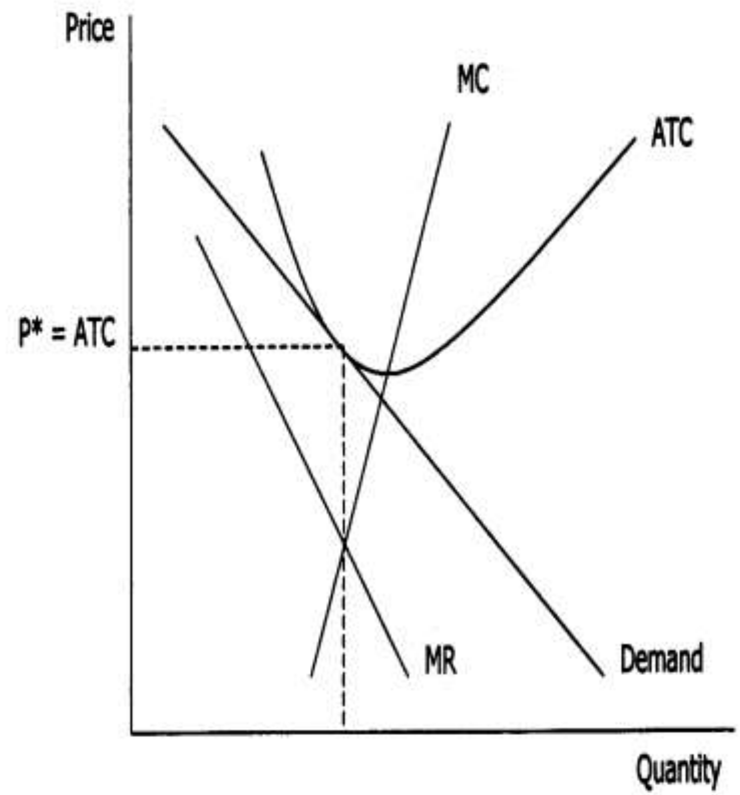
Monopolistic Competition: Profits & Losses

- Downward sloping demand
- Follows monopolist rules
  - MR=MC
  - P = height of demand
  - P >= ATC = profit
  - P<=ATC = losses
  - P=ATC = zero profit



Monopolistic Competition: Entry/Exit

- Entry = new firms and new products
- Demand shifts left
- ATC=Demand = tangent
- Price exceeds marginal cost in LR
- P=ATC b/c entry/exit
- Possesses excess capacity
- Evaluate based upon deadweight loss, consumer surplus



Oligopoly Markets vs. Monopolistic Competition

- Few sellers
- Similar or identical products
- Airplane industry

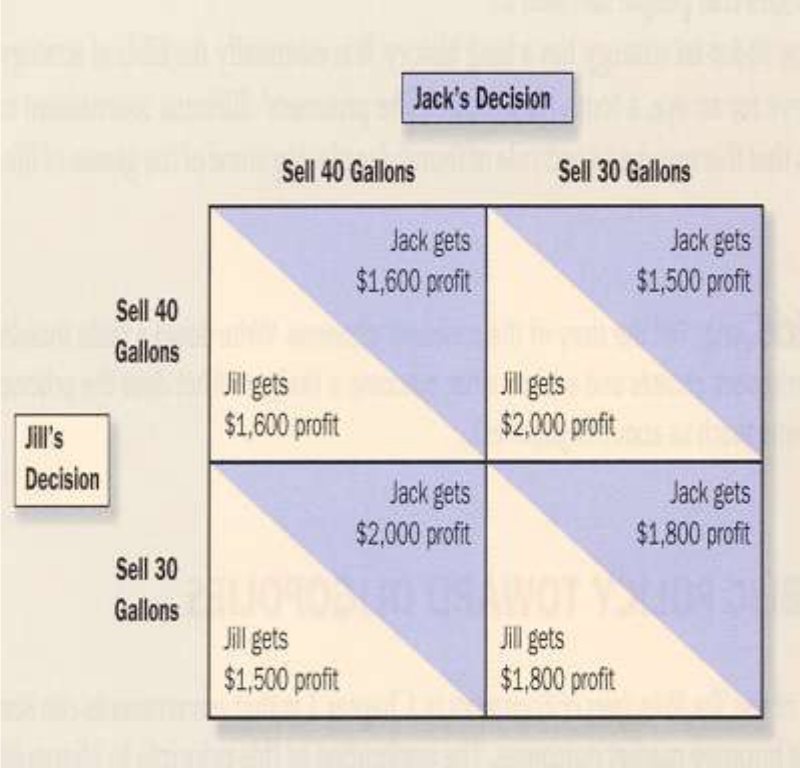
- Many firms
- Selling similar but not identical
- Has monopoly over what it makes but others sell similar products
- Movies, novels, CD's computer games.

Oligopoly Behavior

- Collusion: an agreement among firms in market about quantities to produce or prices to change
- cartel: a group of firms acting in unison—must agree on the total level of production, and the amount to be produced by each firm.

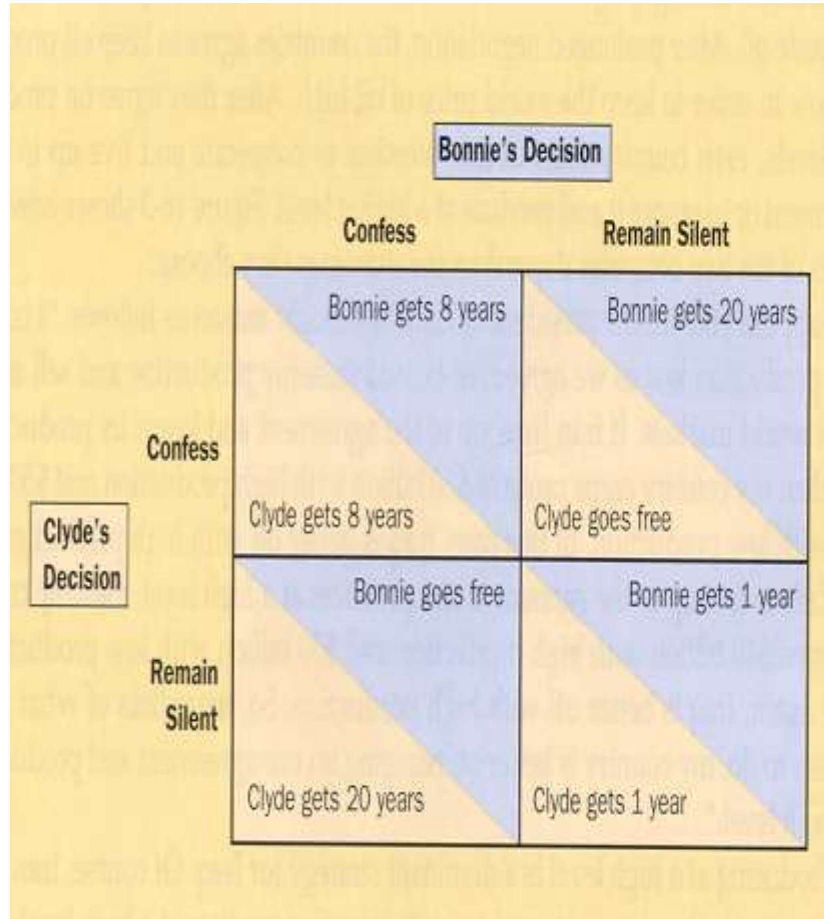
Game Theory – study of strategic situations

- Strategy – players plans, typically two choices
- Payoff matrix – shows possible choices and outcomes
- Players – decision-makers in the game



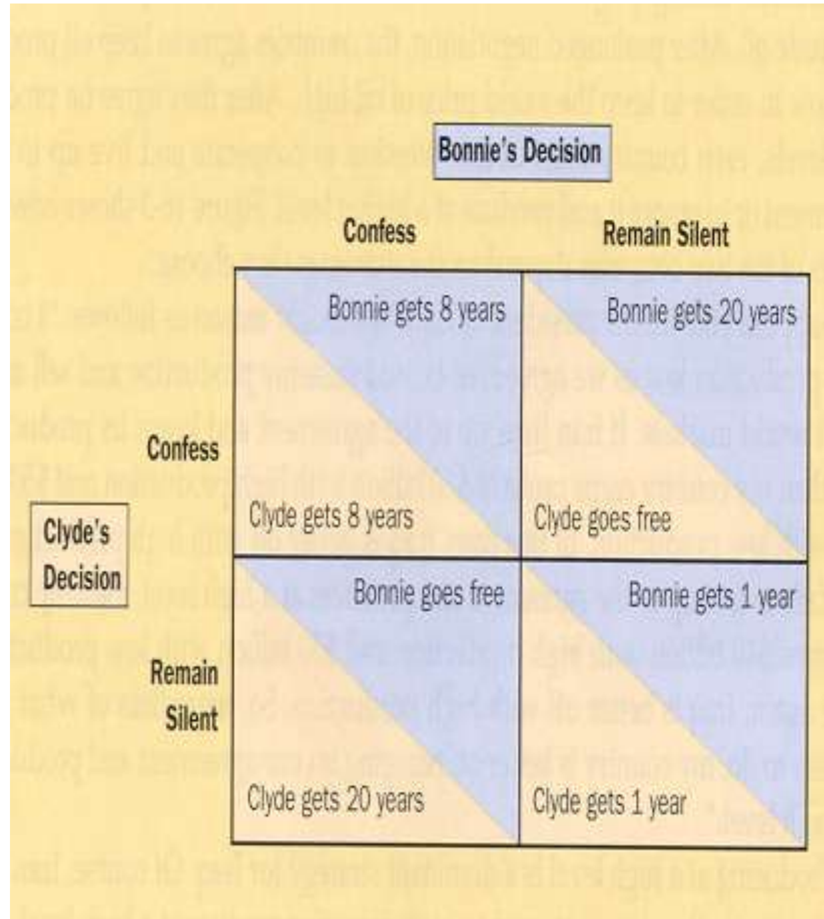
Game Theory – method to study strategic situations

- Strategic situations: each person (firm), in decides what actions to take depending upon actions of others.
- Dominant Strategy: best for player in a game regardless of other's strategy



Prisoner's Dilemma

- Dominant Strategy: best for player in a game regardless of other's strategy. PD = both have DS
- Resulting payoff is smaller than if they had not chosen DS



Oligopoly Behavior: Game Theory

Nash Equilibrium : economic actors interacting with one another each choose their best strategy given the strategies that all other actors have chosen

- output is greater than monopoly and less than competition
- price that is less than monopoly but greater than competition