Chapter 16: Monopolistic Competition
Principles of Economics, 7th Edition
N. Gregory Mankiw
Page 1

1. Between Monopoly and Perfect Competition
   a. There is imperfect competition.
      i. Most markets contain elements of both competition and monopoly.
   b. Oligopoly is a market structure in which only a few sellers offer similar or identical products. P. 330.
   c. Monopolistic competition is a market structure in which many firms sell products that are similar but not identical. P. 330.
      i. This describes a lot of business environments, although the conclusions are similar to those under competition.
      ii. Figure 1: The Four Types of Market Structure. P. 331.
      iii. There is no magic number that separates “few” from “many.”
   d. MC has the following attributes:
      i. Many sellers,
      ii. selling differentiated products and
      iii. there is free entry.

2. Competition with Differentiated Products
   a. Monopolistically competitive markets offer the opportunity to bring in some real world considerations;
      i. Transaction costs and
      ii. Risk aversion.
   b. The Monopolistically Competitive Firm in the Short Run
      i. A relevant question is how they got here.
      ii. Figure 2: Monopolistic Competitors in the Short Run. P. 333.
   c. The Long Run Equilibrium
      i. As in monopoly, P > MC.
      ii. As in competition, TR = TC and there are no economic profits.
      iii. Figure 3: A Monopolistic Competitor in the Long Run. P. 334.
   d. Monopolistic Versus Perfect Competition
      i. Figure 4: Monopolistic Versus Perfect Competition. P. 335.
      ii. Excess Capacity
         (1) This only exists because people view the product as different.
         (2) They must see value in the higher priced good.
      iii. Markup over Marginal Cost
   e. Monopolistic Competition and the Welfare of Society
      i. If society did not consider that there were costs associated with the different products, the demand curve would be flat and this environment would not exist.
         (1) However, costs are associated with uncertainty, location and time.
      ii. In the News: Insufficient Variety as a Market Failure, P. 338.
         (1) If the Shoe Doesn’t Fit
         (2) Few people with unique tastes do not justify a product.
Chapter 16: Monopolistic Competition
Principles of Economics, 7th Edition
N. Gregory Mankiw
Page 2

3. Advertising
   a. The debate over advertising
      i. Since in most cases it is incorporated in the price of the good, they would not do it if consumers did not value it.
      ii. The Critique of Advertising
      iii. The Defense of Advertising
   c. Advertising as a Signal of Quality
      i. This explains advertising that essentially contains no “information.”
      ii. If I advertise, I either think that you are going to value the product if you buy it or people in past did that giving me the revenue to advertise now.
   d. Brand Names
      i. Table 1: Monopolistic Competition: Between Perfect Competition and Monopoly, P. 344.

4. Conclusion

5. Summary