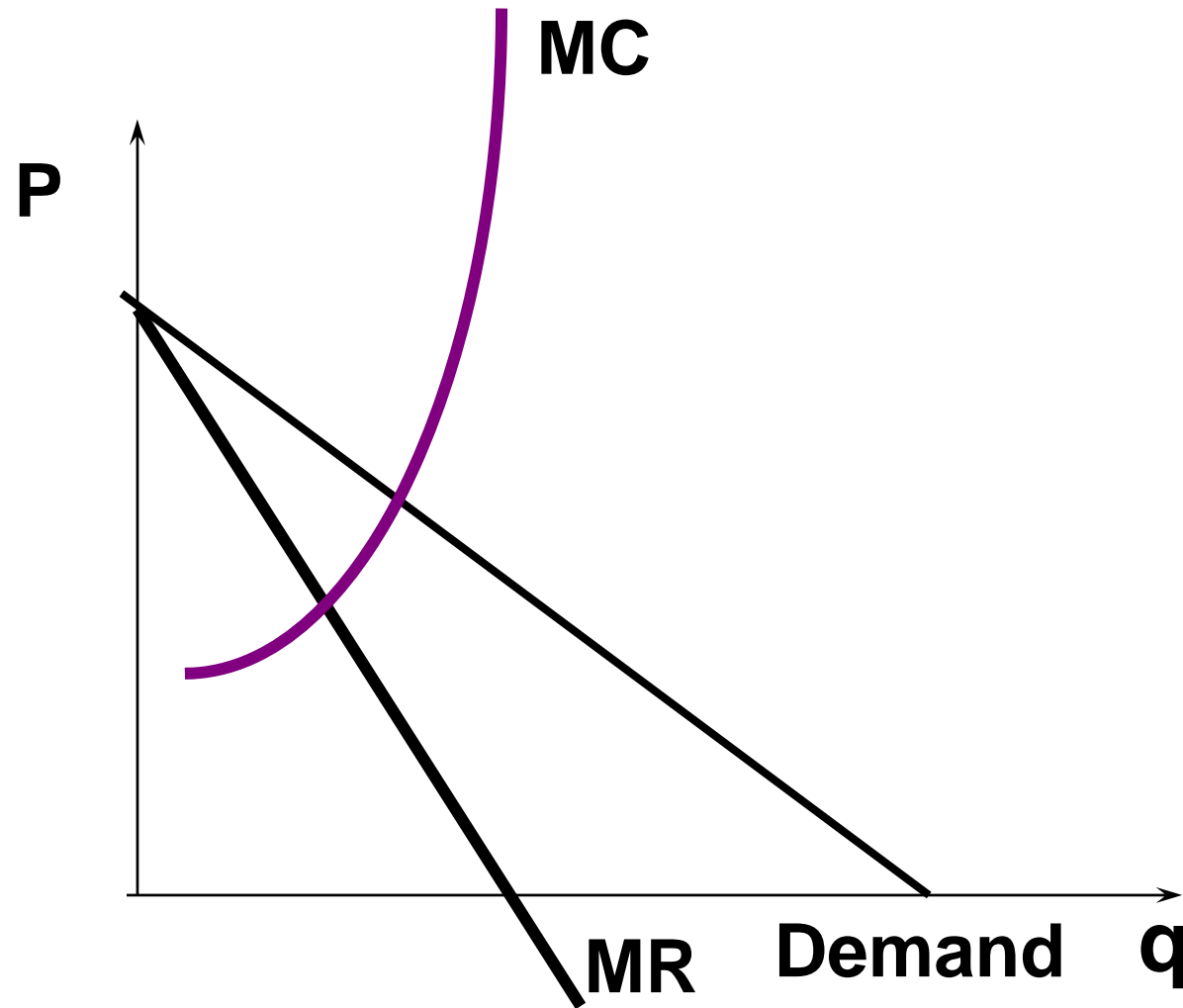


Monopolistic Competition

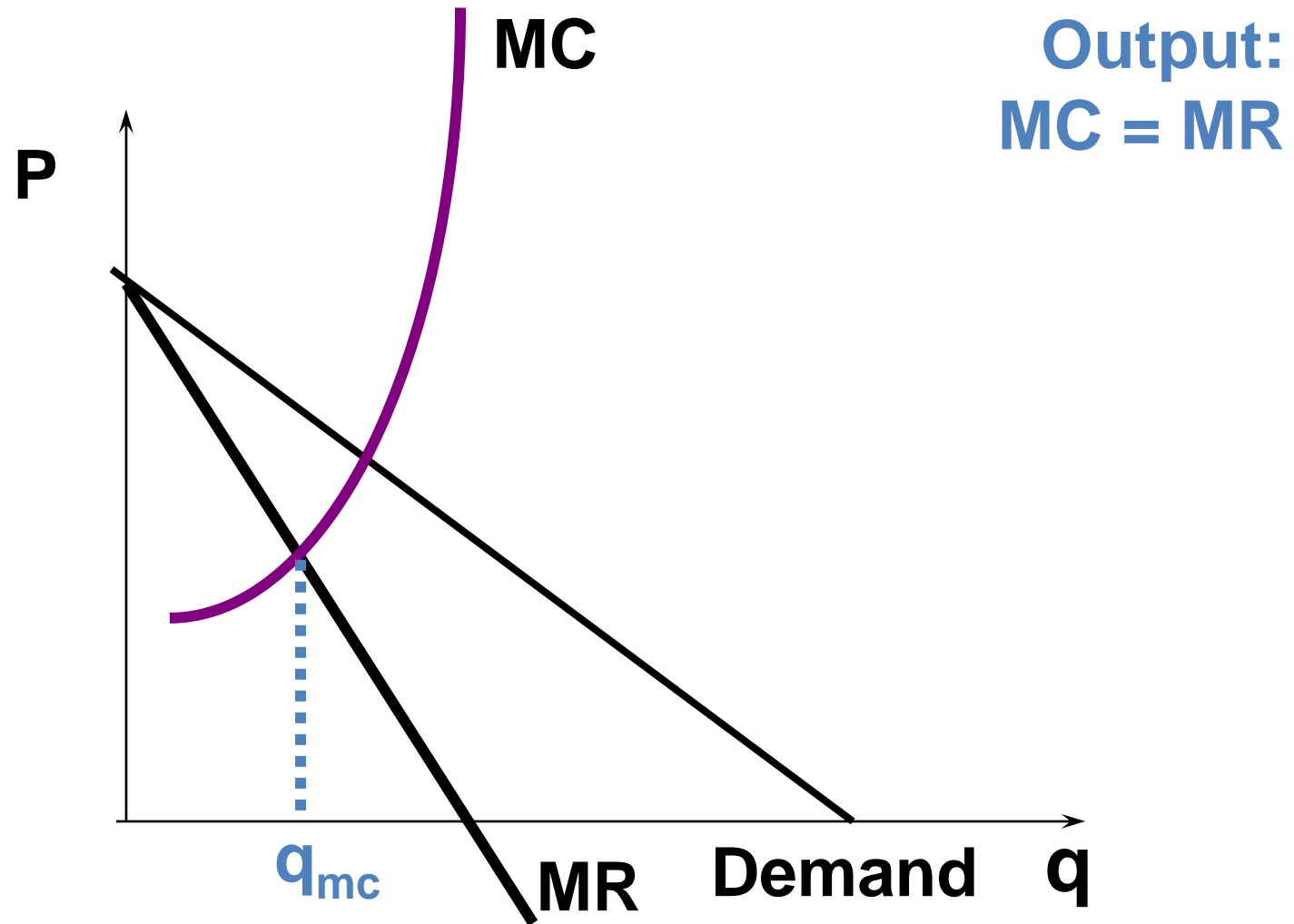
Assumptions

- Many buyers and a “large-ish” number of sellers
- Sellers are price-makers (i.e. have market power) to some extent in the short run
- Differentiated products
- Freedom of entry and exit

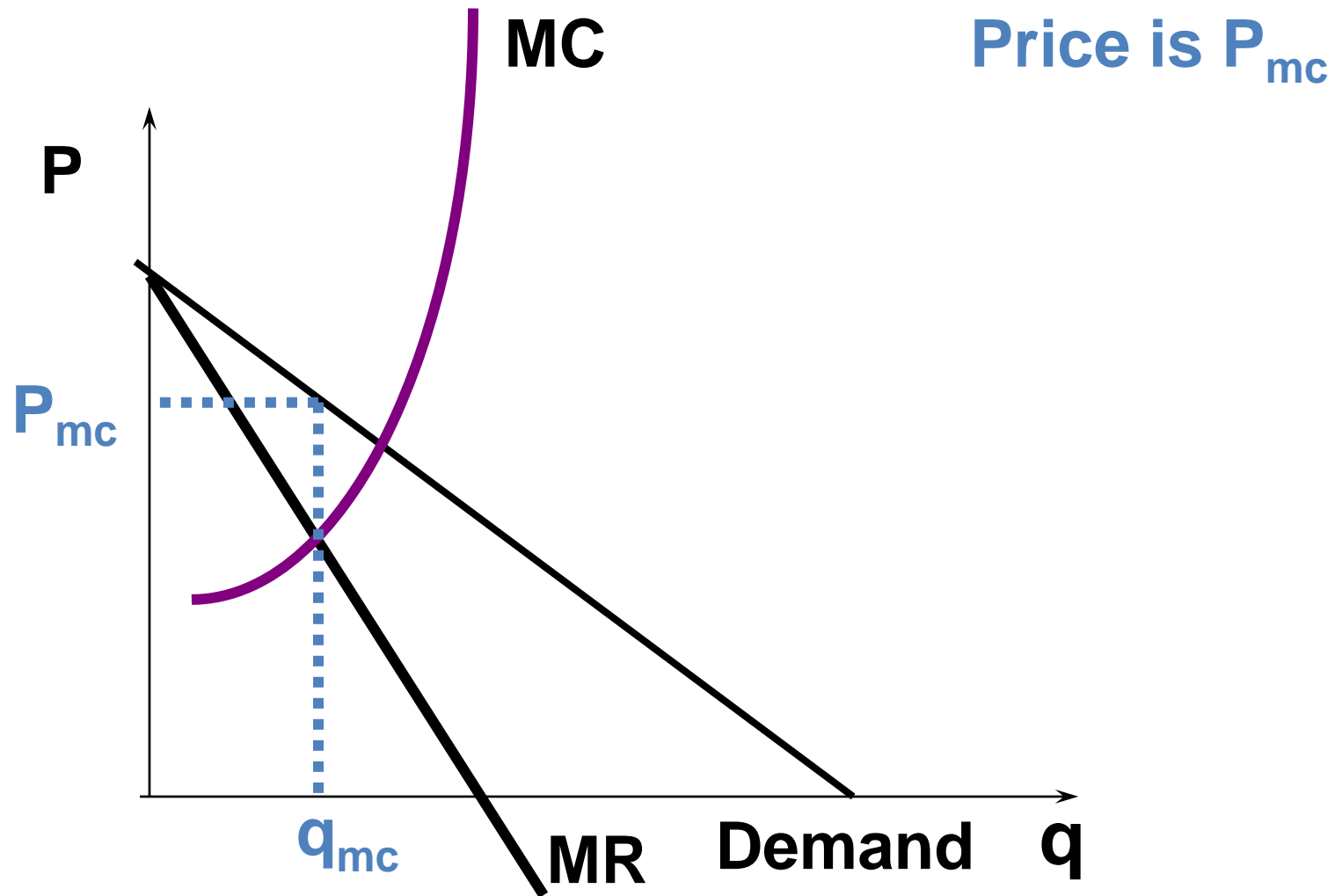
Short Run Equilibrium: Firm



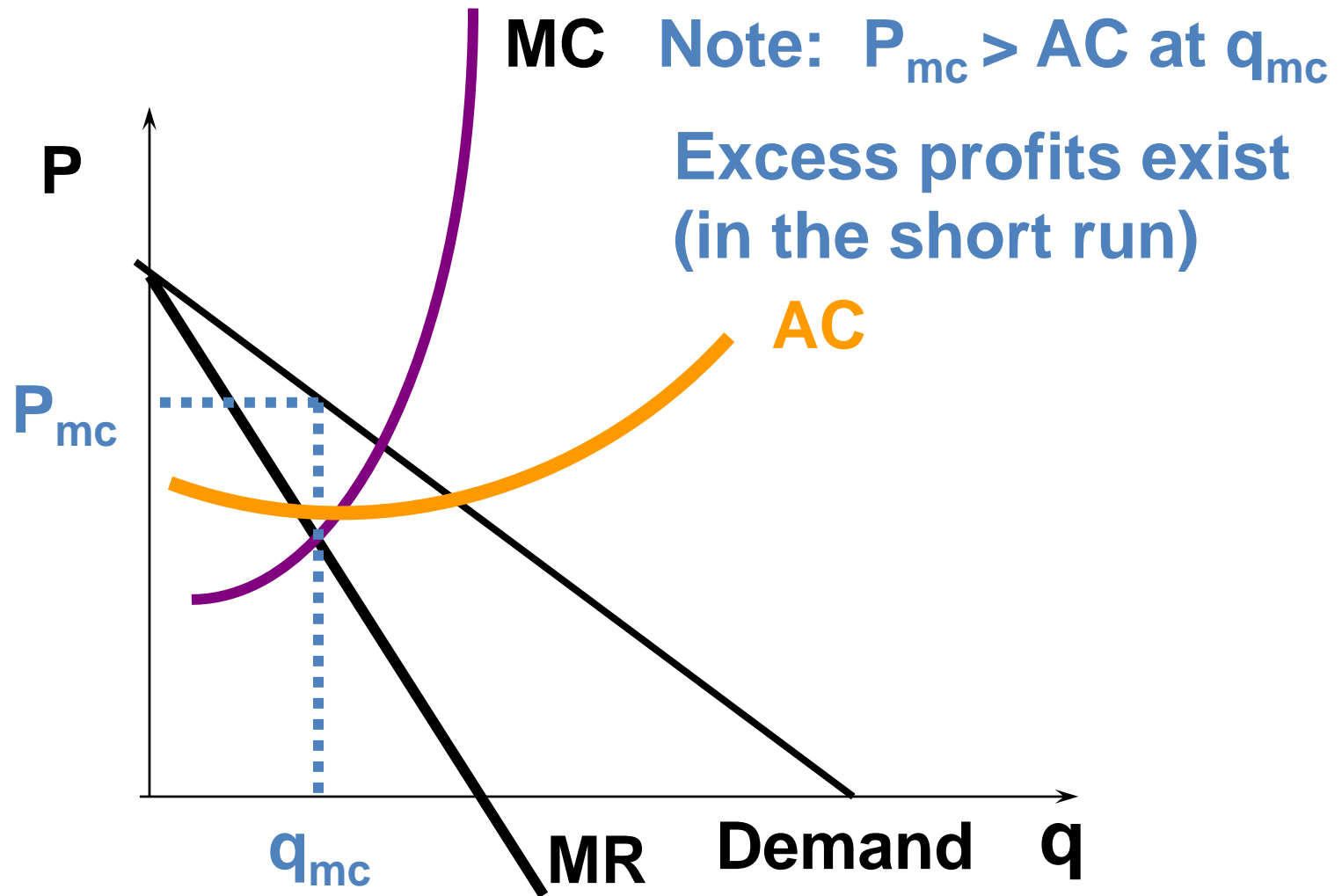
Short Run Equilibrium: Firm



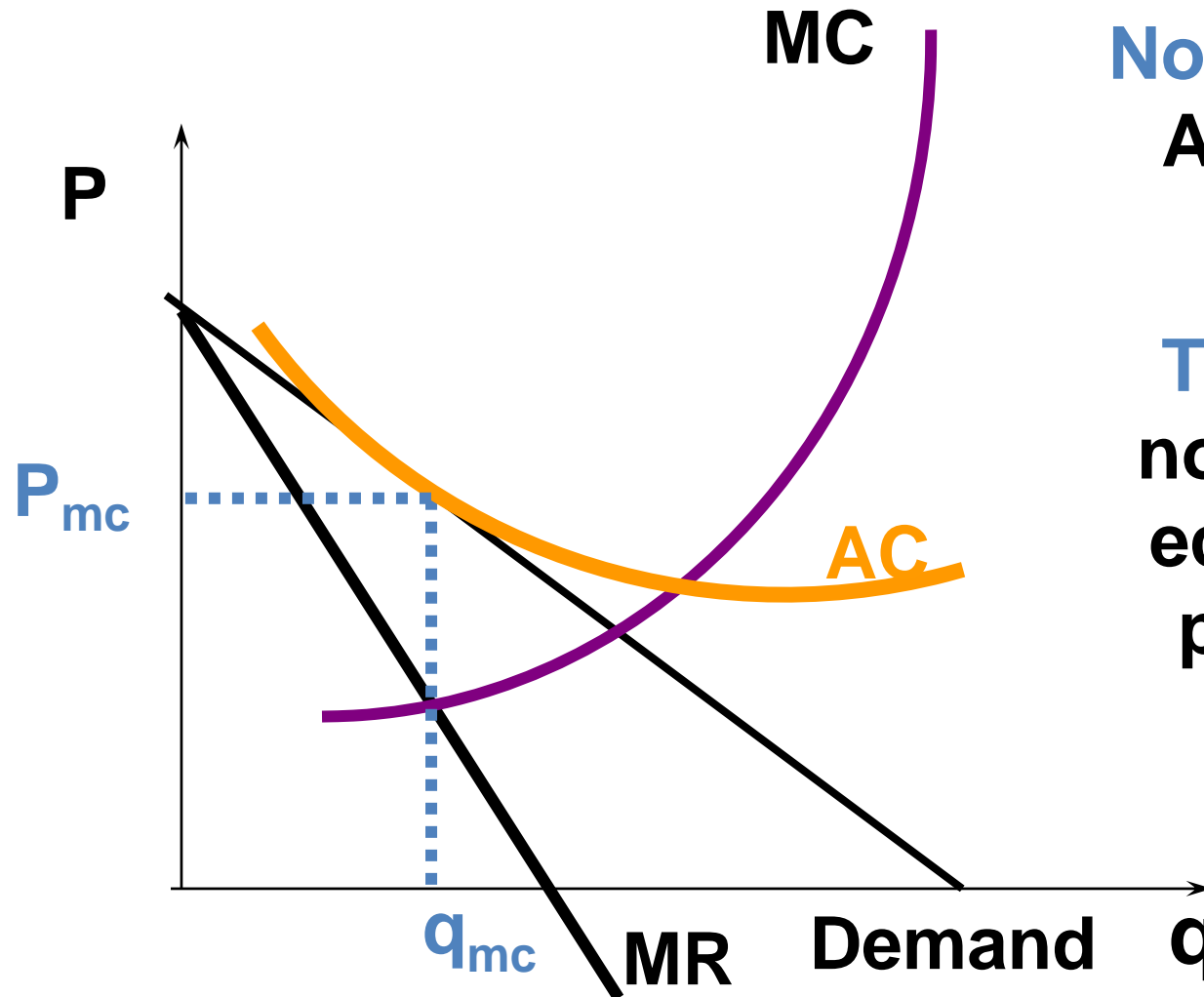
Short Run Equilibrium: Firm



Short Run Equilibrium: Firm



Long Run Equilibrium: Firm



Note: $P_{mc} =$
AC at Y_{mc}

There are
no excess
economic
profits in
the long
run

Monopolistic Competition v. Perfect Competition v. Monopoly

- Homework