

12.67- MONOPOLISTIC COMPETITION

12.67- Demonstrate an understanding of monopolistic competition.

KICKOFF:

- ❖ Go to Google Classroom and complete the assignment **“KO- 2/20”**
 - In your own words (one paragraph) compare and contrast oligopolistic competition, perfect competition, and monopolies. In your answer you should include discussion of traits/characteristics, graphs, efficiency, etc.
- ❖ **Roll Call:** Popeyes, Bojangles, KFC, or Chick-fila

ANNOUNCEMENTS:

- ❖ Knight Time this week and next
- ❖ **2 modules left this unit**
 - 67 (monopolistic competition) and 68 (product differentiation and advertising)
- ❖ **2/28-** Unit 5 Test
- ❖ 45 minute classes
 - 5 minute class change
 - Watch the weather

STEAL OR SPLIT- TAKE OUT ONE PIECE OF PAPER



SPLIT OR STEAL PAYOFF MATRIX

		<u>Girl</u>	
		<u>Split</u>	<u>Steal</u>
<u>Boy</u>	<u>Split</u>	\$50,000 - \$50,000	\$0 - \$100,000
	<u>Steal</u>	\$100,000 - \$0	\$0 - \$0

SPLIT OR STEAL - GETS CRAZY

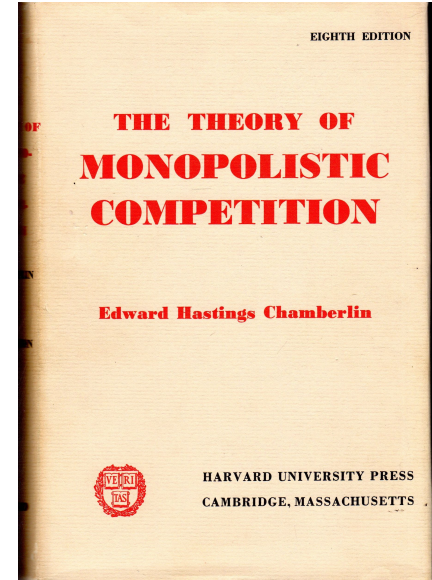


12.67- MONOPOLISTIC COMPETITION

12.67- Demonstrate an understanding of monopolistic competition. - I suggest taking these notes by hand.

WHAT WE ALREADY KNOW ABOUT MONOPOLISTIC COMPETITION

- ❖ Barriers to entry
 - Low
- ❖ Number of firms
 - Many
- ❖ Product differentiation?
 - Yes (but similar categorically)
- ❖ Control over price
 - A little
- ❖ How do they control price other differentiation?
 - Advertising
- ❖ Efficient?
 - Not allocatively or productively efficient



EXAMPLES, TENDENCIES, AND TRAITS



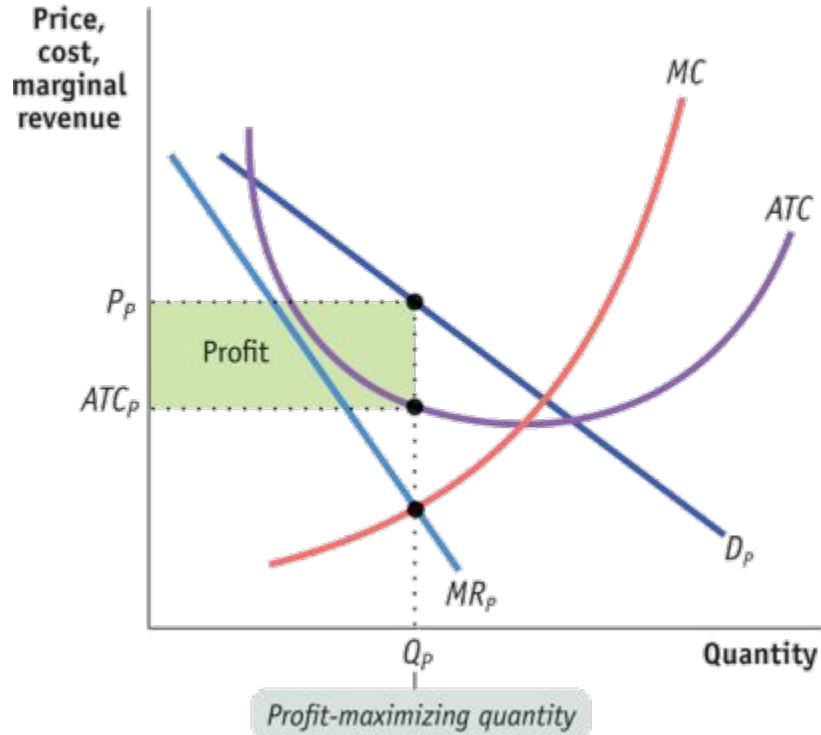
- ❖ Examples:
 - Fast food, gas stations, toothbrush companies, general clothing brands, jeans, supply stores, etc.
- ❖ Little opportunities for collusion
 - Too many firms
- ❖ Many possible (but not perfect) substitutes for goods and services
 - Relatively elastic demand curve

GRAPH

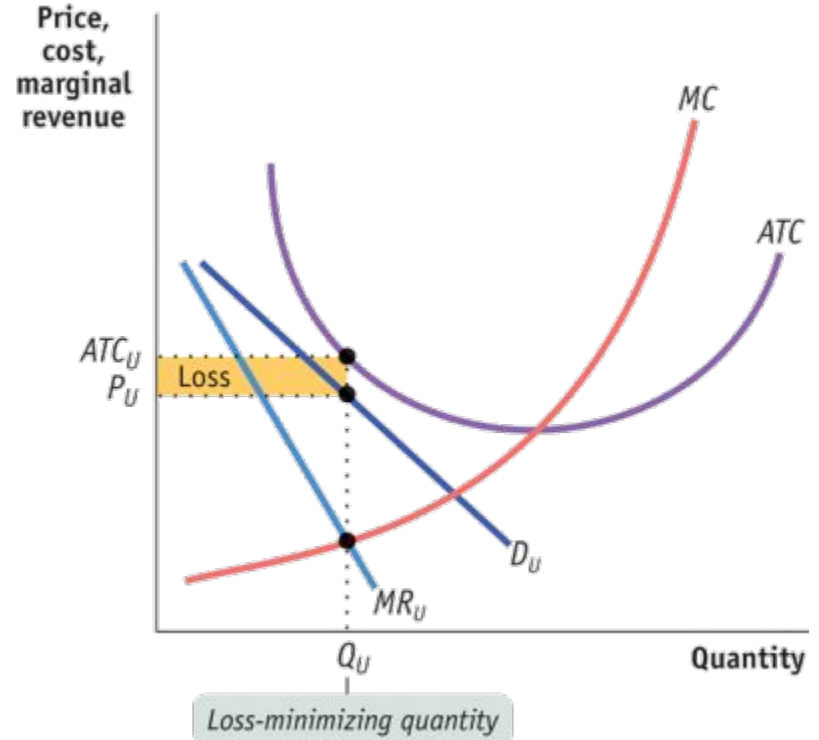
- ❖ Draw a monopoly graph
 - This (basically) is your monopolistic graph!
- ❖ In the short-run monopolistic firms can make a profit or incur a loss
 - Draw both
- ❖ In the long-run all monopolistic firms will break even
 - Draw this

PROFITABLE V. UNPROFITABLE MONOPOLISTIC FIRMS

(a) A Profitable Firm

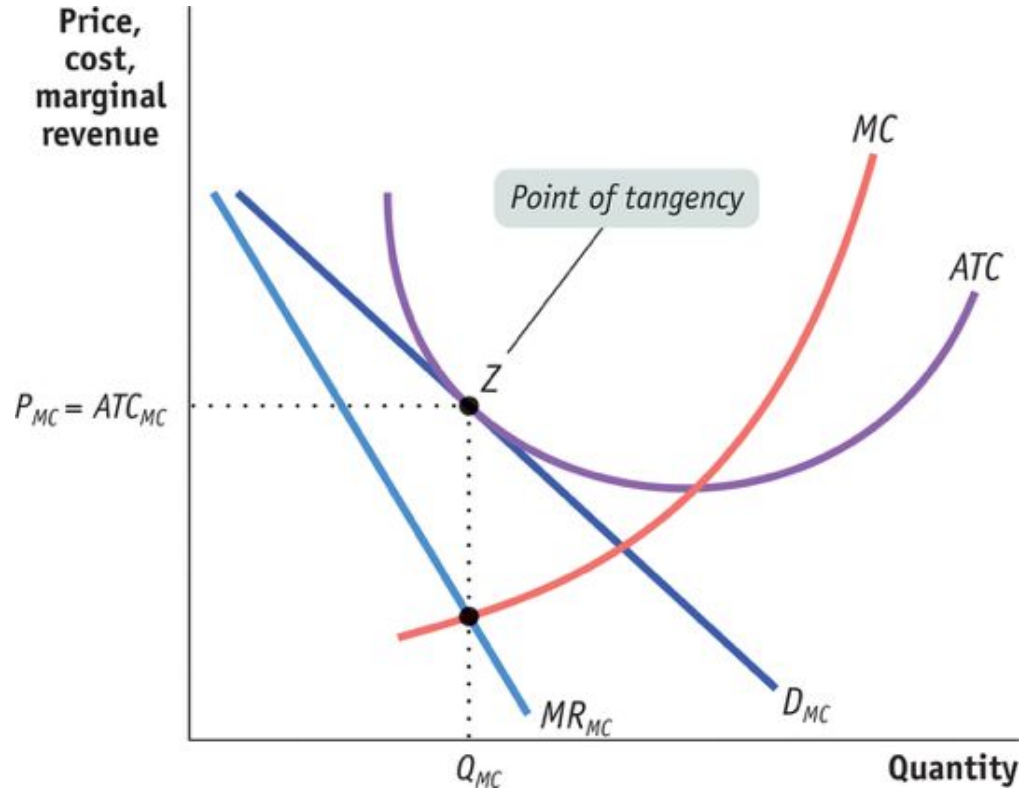


(b) An Unprofitable Firm



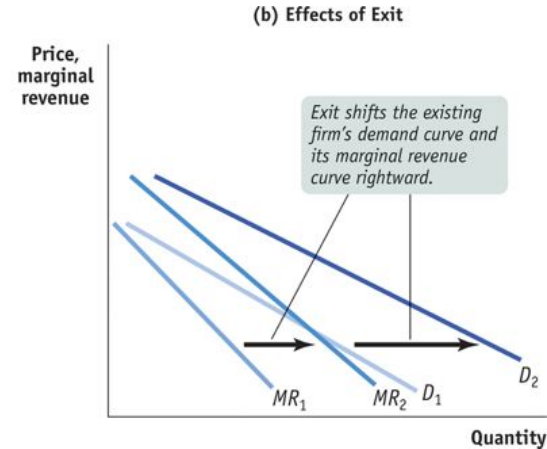
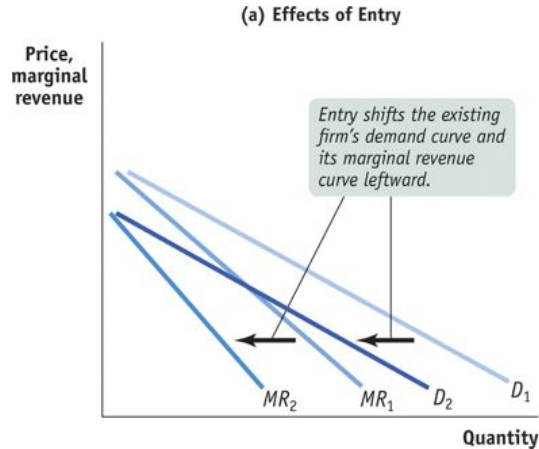
MONOPOLISTIC FIRM IN LONG-RUN EQUILIBRIUM

- ❖ In Long-Run Equilibrium when $ATC = D$ where $MR = MC$



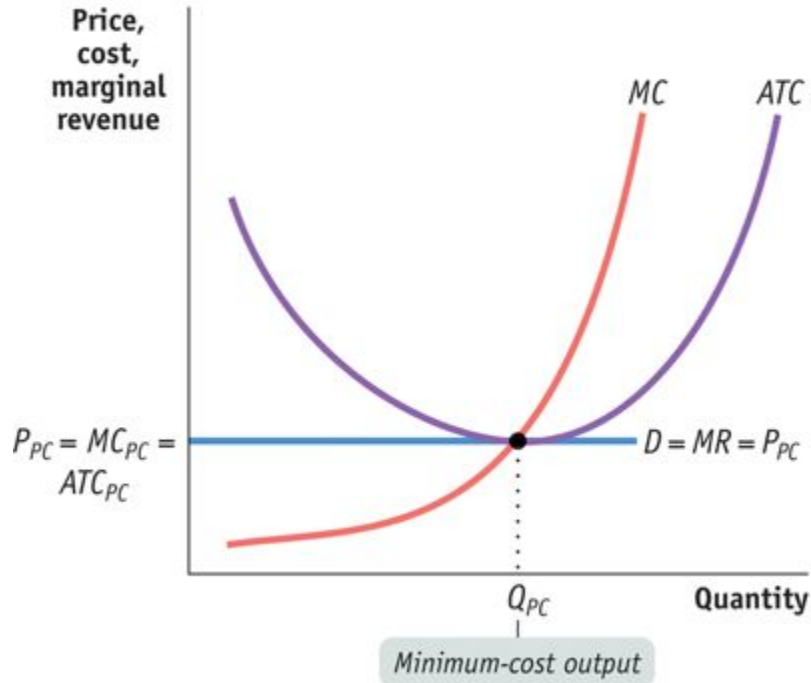
HOW DO WE GO FROM SHORT-RUN (PROFITS OR LOSSES) TO LONG EQUILIBRIUM?

- ❖ Shifts in the demand curve
 - If profits are being earned, firms will enter the market causing more substitutes to be available and demand to decrease (shift left)
 - If losses are being incurred firms will exit the market meaning less substitutes are available and the demand will increase (shift right)

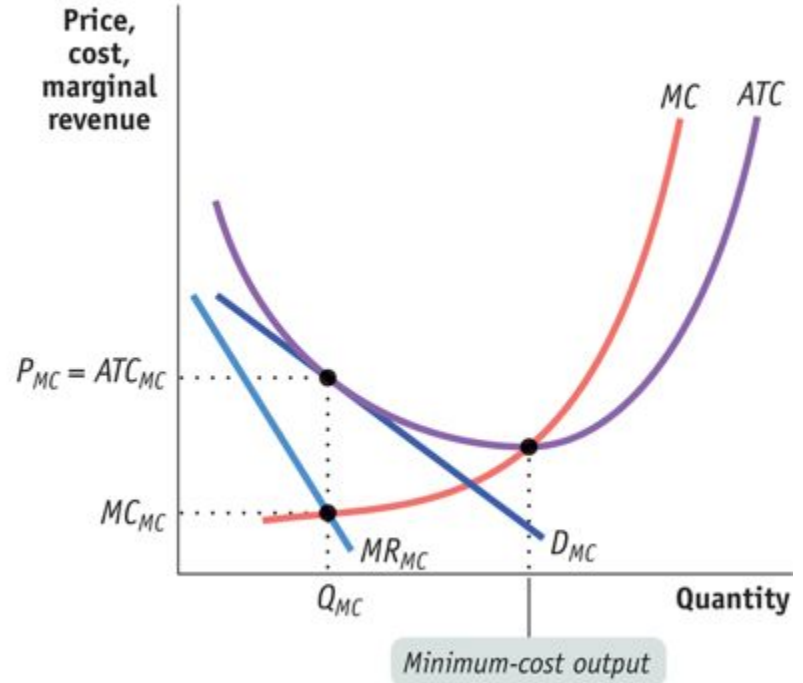


LONG-RUN PERFECT V. LONG-RUN MONOPOLISTIC

(a) Long-Run Equilibrium
in Perfect Competition



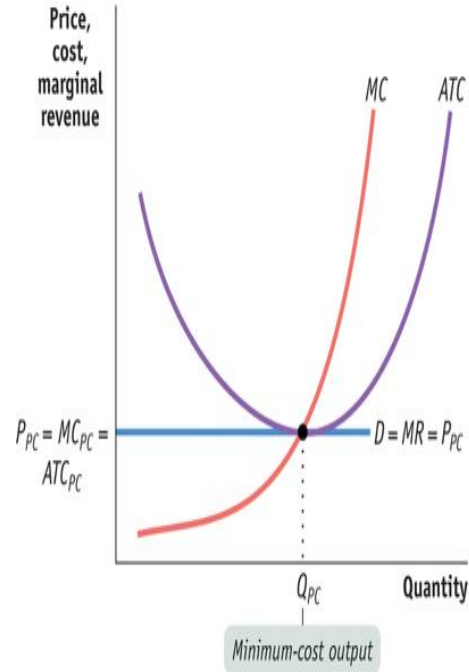
(b) Long-Run Equilibrium
in Monopolistic Competition



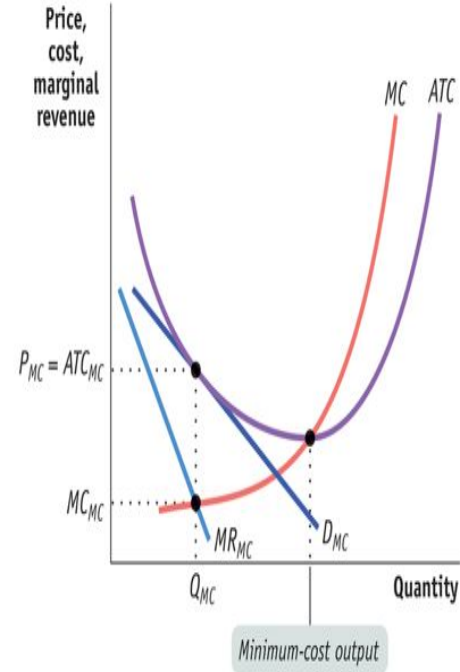
EFFICIENCY

- ❖ Produce a lower level of output at too high of a price and at a higher Average Total Cost
 - Not allocatively or productively efficient
 - Excess capacity
- ❖ But what makes up for this inefficiency?
 - Differentiation and consumer choice!

(a) Long-Run Equilibrium in Perfect Competition



(b) Long-Run Equilibrium in Monopolistic Competition



PRACTICE:

- ❖ With your partner if you'd like:
 - Analyze the graph
 - FRQ Practice
- ❖ When you're done, begin researching your companies business plan
 - Sales and marketing strategy
 - Target Audience
 - Pricing strategies
 - Competitors
 - Location(s)
 - Advertising technique
 - Logo significance?

CLOSURE- 10 MINUTES:

- ❖ On one clean sheet of paper draw 4 things:
 - Side-by-side graphs for an industry and firm in a perfectly competitive market
 - A monopoly that is earning a profit
 - A monopolistic firm in long-run equilibrium
 - A payoff matrix with two dominant strategies
- ❖ BE SURE TO LABEL EVERYTHING