

Chapter 12

Monopolistic Competition and Oligopoly

■ Review Questions

1. **What are the characteristics of a monopolistically competitive market? What happens to the equilibrium price and quantity in such a market if one firm introduces a new, improved product?**

The two primary characteristics of a monopolistically competitive market are that (1) firms compete by selling differentiated products that are highly, but not perfectly, substitutable and (2) there is free entry and exit from the market. When a new firm enters a monopolistically competitive market or one firm introduces an improved product, the demand curve for each of the other firms shifts inward, reducing the price and quantity received by those incumbents. Thus, the introduction of a new product by a firm will reduce the price received and quantity sold of existing products.

2. **Why is the firm's demand curve flatter than the total market demand curve in monopolistic competition? Suppose a monopolistically competitive firm is making a profit in the short run. What will happen to its demand curve in the long run?**

The flatness or steepness of the firm's demand curve is a function of the elasticity of demand for the firm's product. The elasticity of the firm's demand curve is greater than the elasticity of market demand because it is easier for consumers to switch to another firm's highly substitutable product than to switch consumption to an entirely different product. Profit in the short run induces other firms to enter. As new firms enter, the incumbent firm's demand and marginal revenue curves shift to the left, reducing the profit-maximizing quantity. In the long run profits fall to zero, leaving no incentive for more firms to enter.

3. **Some experts have argued that too many brands of breakfast cereal are on the market. Give an argument to support this view. Give an argument against it.**

Pro: Too many brands of any single product signals excess capacity, implying that each firm is producing an output level smaller than the level that would minimize average cost. Limiting the number of brands would therefore enhance overall economic efficiency.

Con: Consumers value the freedom to choose among a wide variety of competing products. Even if costs are slightly higher as a result of the large number of brands available, the benefits to consumers outweigh the extra costs.

(Note: In 1972 the Federal Trade Commission filed suit against Kellogg, General Mills, and General Foods. It charged that these firms attempted to suppress entry into the cereal market by introducing 150 heavily advertised brands between 1950 and 1970, crowding competitors off grocers' shelves. This case was eventually dismissed in 1982.)

4. **Why is the Cournot equilibrium stable? (I.e., Why don't firms have any incentive to change their output levels once in equilibrium?) Even if they can't collude, why don't firms set their**

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Chapter 12 Monopolistic Competition and Oligopoly Monopolistic Competition and Oligopoly Topics to be Discussed Monopolistic Competition Oligopoly Price Competition Competition Versus Collusion: The Prisoners' Dilemma. Monopolistic Competition Characteristics. 1) Many firms. 2) Free entry and exit. 3) Differentiated product. Monopolistic Competition The amount of monopoly power depends on ...

Lecture notes, lecture 12 - Monopolistic competition and ...

Chapter 12- Monopolistic Competition. STUDY. Flashcards. Learn. Write. Spell. Test. PLAY. Match. Gravity. Created by. Josephine Bertolino. Key Concepts: Terms in this set (32) In monopolistic competition, if profits exist, firms: Enter the market. A good way to describe ____ competition is that it mixes a small amount of market power with a large amount of competition, while ____ blends ...

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Chapter 12 Monopolistic Competition and Advertising. monopolistic competition. product differentiation. markup. excess capacity. is a type of market structure characterized by free entry, man... is the process that firms use to make a product more attractiv... is the difference between the price the firm charges and the m... occurs when a firm produces at an output level that is smaller ...

monopolistic competition chapter 12 Flashcards and Study ...

1. What are the characteristics of a monopolistically competitive market? What happens to the equilibrium price and quantity in such a market if one firm introduces a new, improved product? The two primary characteristics of a monopolistically

(PDF) Chapter 12 Monopolistic Competition and Oligopoly ...

1. Suppose all firms in a monopolistically competitive industry were merged into one large firm. Would that new firm produce as many different brands? Would it produce only a single brand? Explain. Monopolistic competition is defined by product

Solution to Selected Questions: CHAPTER 12 MONOPOLISTIC ...

Chapter 12: Monopolistic Competition and Oligopoly 192 The Stackelberg leader gains the advantage because the second firm must accept the leader's large output as given and produce a smaller output for itself. If the second firm decided to produce a larger quantity, this would reduce

Chapter 12 Monopolistic Competition And Oligopoly

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Monopolistic Competition and Oligopoly Monopolistic Competition: a mix of small amount of monopoly power with a large amount of competition Oilgopoly: A mix of large amount of monopoly power with both reivrly of existing firm and threat of increase

future competition due to forgien firm and new technologies 12.1 Characteristics of Monopolistic Competition 1.

Econ chapter 12.pdf - Monopolistic Competition and ...

Chapter 12 Monopolistic Competition and Oligopoly 2. Topics to be Discussed Monopolistic Competition Oligopoly Price Competition Competition Versus Collusion: The Prisoners' Dilemma 3. Topics to be Discussed Implications of the Prisoners' Dilemma for Oligopolistic Pricing Cartels ...

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Chapter 12; Monopolistic Competition and Advertising. STUDY. Flashcards. Learn. Write. Spell. Test. PLAY. Match. Gravity. Created by. mj6242. Terms in this set (10) Monopolistic competition. characterized by free entry, many different firms, and product differentiation. Product differentiation. the process that firms use to make a product more attractive to potential customers ...

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Chapter 12 - Monopolistic competition and Oligopoly. STUDY. Flashcards. Learn. Write. Spell. Test. PLAY. Match. Gravity. Created by. nbritton10 PLUS. Terms in this set (15) what is the difference between monopolistic competition, oligopoly, and cartel? monopolistic competition - market in which firms can enter freely, each producing its own brand or version of a differentiated product ...

Chapter 12 - Monopolistic competition and Oligopoly ...

•Chapter 12 Monopolistic Competition and Oligopoly .. Economics I: 2900111 . Chairat Aemkulwat 14. FIRM 1'S OUTPUT DECISION FIGURE 12.3 The Cournot Model Cournot model Oligopoly model in which firms produce a homogeneous good, each firm treats the output of its competitors as fixed, and all firms decide simultaneously how much to produce. Firm 1's profit-maximizing output depends on how ...

12 Monopolistic Competition and Oligopoly

Monopolistic competition occurs when an industry has many firms offering products that are similar but not identical. Unlike a monopoly, these firms have little power to set curtail supply or ...

Monopolistic Competition Definition

12.0 -Monopolistic competition"Market in which firms can enter freely, each producing its own brand or version of a differentiated product. -Oligopoly:Market in which only a few firms compete with one another, and entry by new firms is impeded.

Chapter 12 Monopolistic Competition and Oligopoly

Chapter 12 Slide 16 Monopolistic Competition in the Market for Colas and Coffee ? The

markets for soft drinks and coffee illustrate the characteristics of monopolistic competition. Chapter 12 Slide 17 Elasticities of Demand for Brands of Colas and Coffee Brand Elasticity of Demand Colas: Ground Coffee: Royal Crown Coke Hills Brothers Maxwell House Chase and Sanborn -2.4 -5.2 to -5.7 -7.1 -8.9 ...

Chapter 12- Monopolistic Competition and Oligopoly_00_0000

Chapter 12 Monopolistic Competition and Oligopoly Section: 12.1 1) For which of the following market structures is it assumed that there are barriers to entry? A) Perfect competition B) Monopolistic competition C) Monopoly D) all of the above E) B and C only Answer: C 2) Use the following two statements about monopolistic competition to answer this question.

MCQs Chapter 12 Monopolistic Competition and Oligopoly ...

Solution to Selected Questions: CHAPTER 12 MONOPOLISTIC COMPETITION AND OLIGOPOLY 1. Suppose all firms in a monopolistically competitive industry were merged into one large firm. Would that new firm produce as many different brands? Would it produce only a single brand? Explain. Monopolistic competition is defined by product differentiation. Each firm earns economic profit by distinguishing ...

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