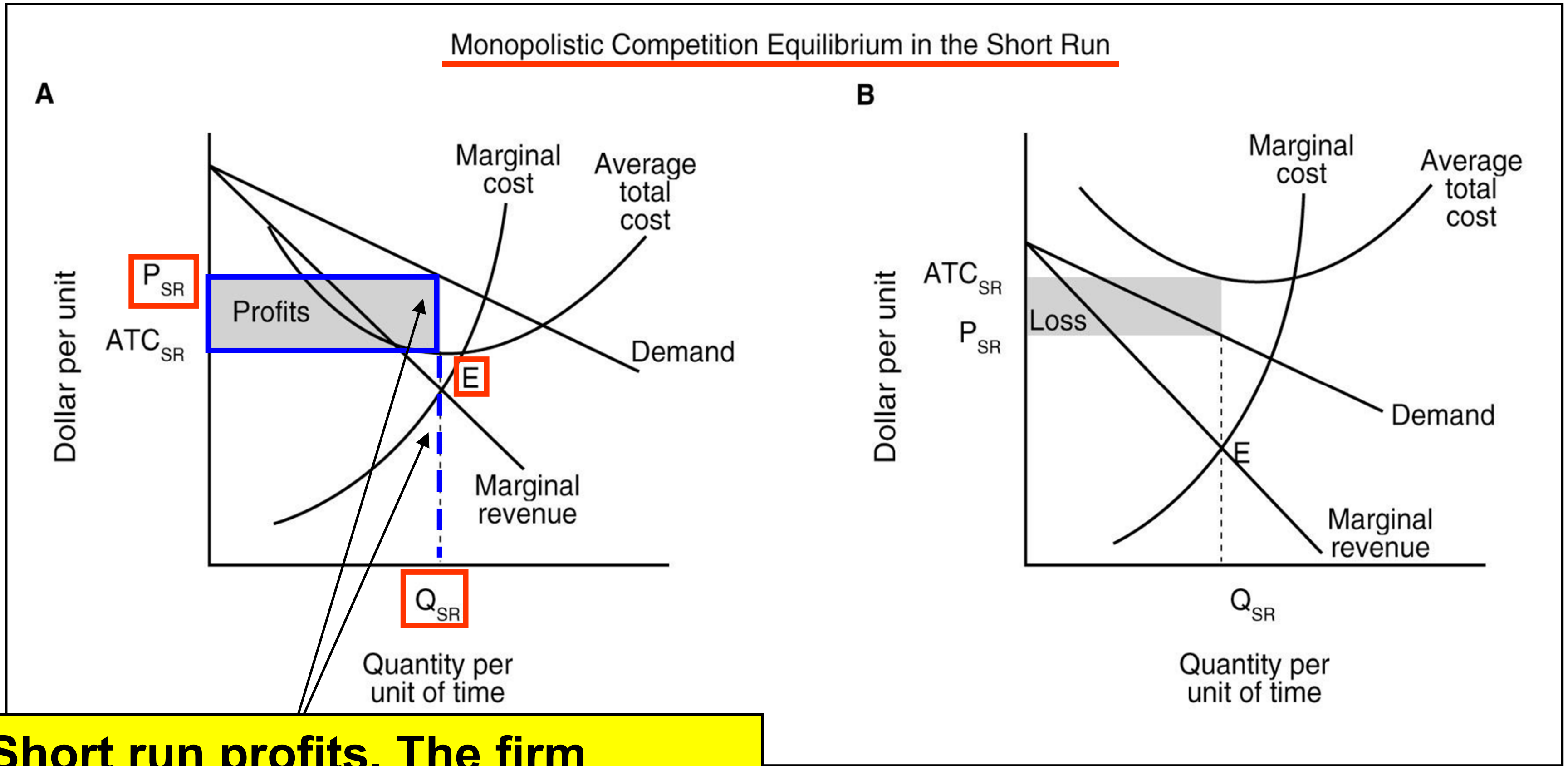
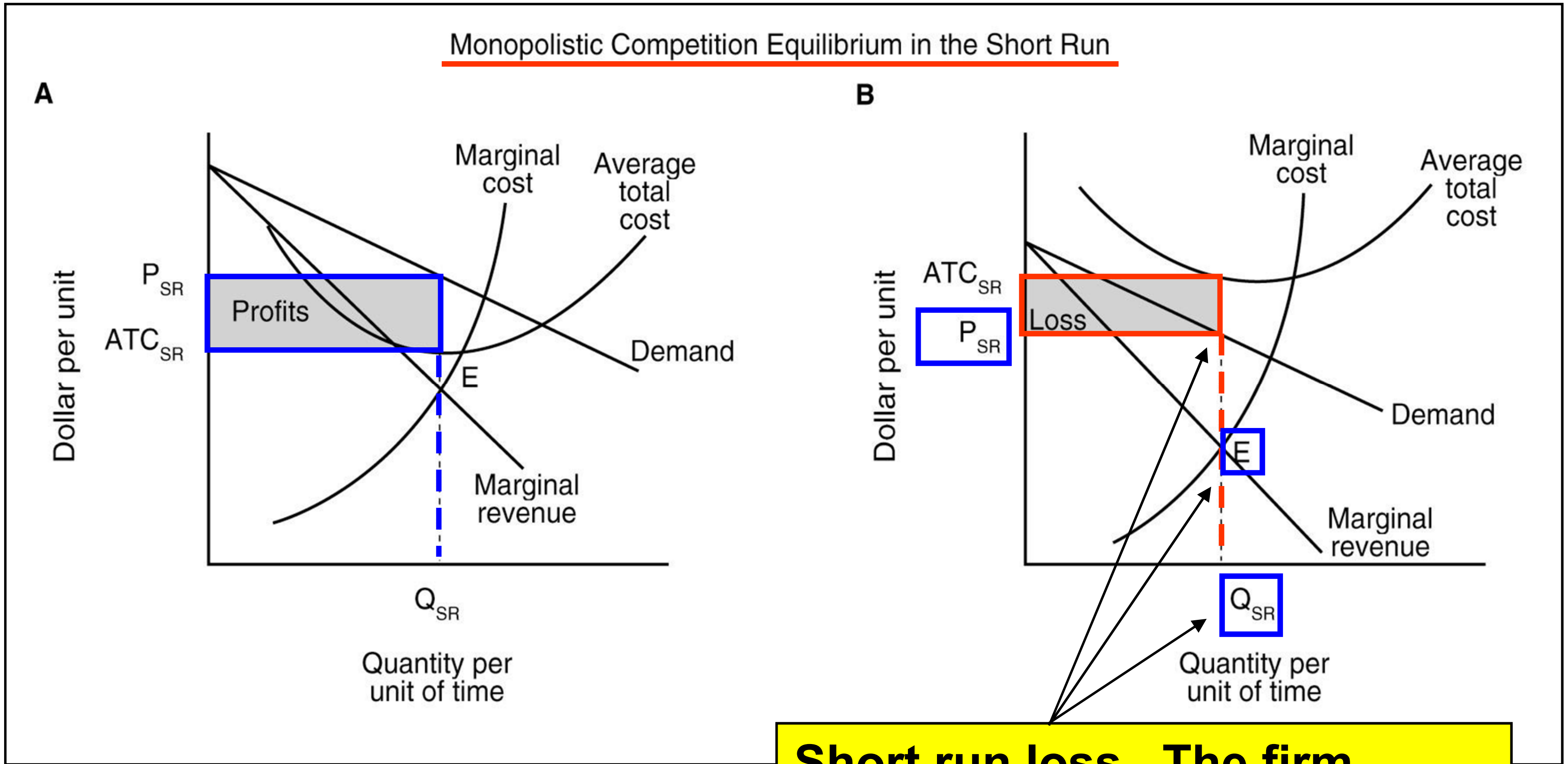
# Market
# Price Discovery #2
# *Imperfect Competition*

# Monopolistic Competitors

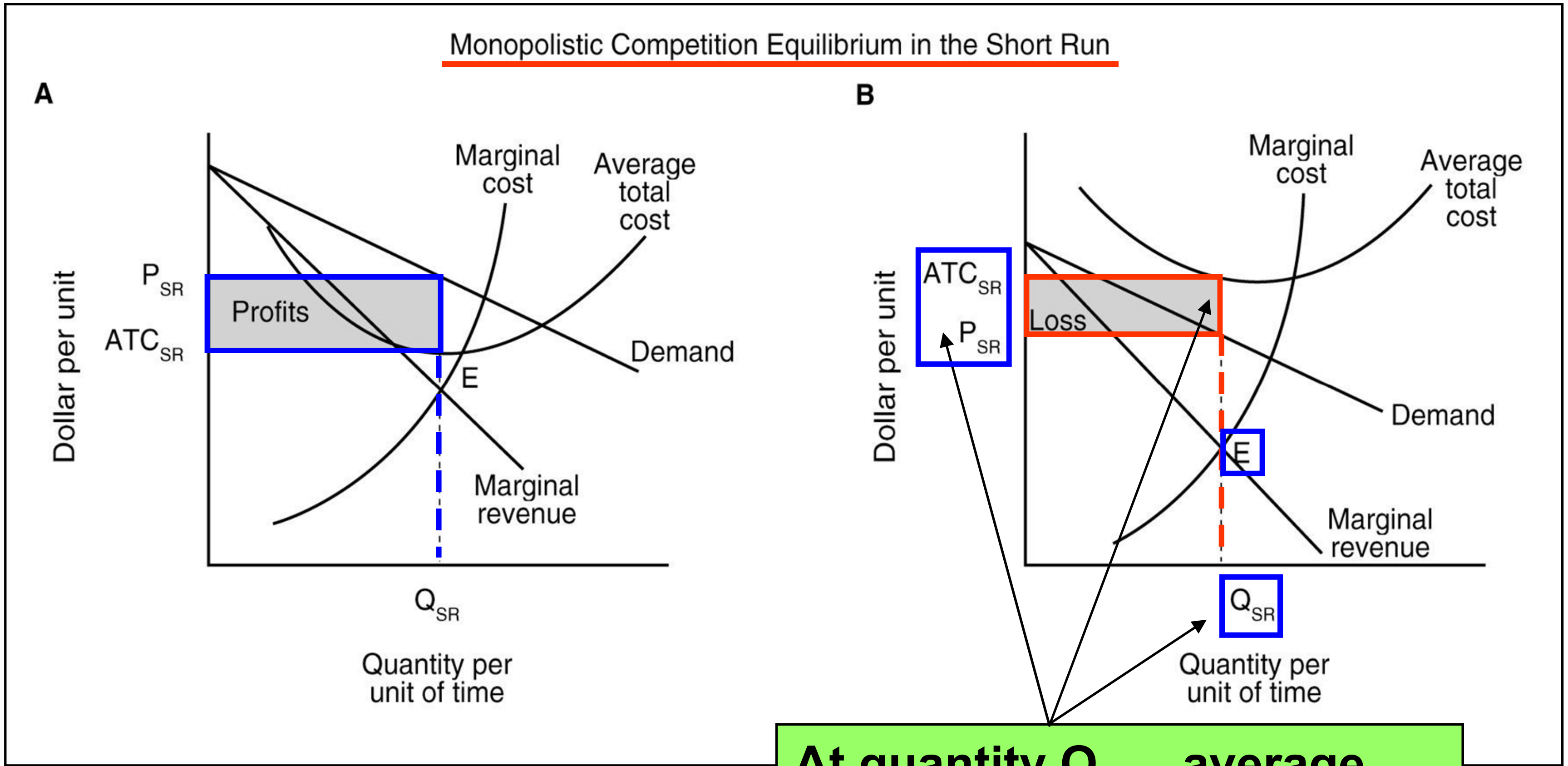
- ✓ Many sellers
- ✓ Ability to differentiate product by advertising and sales promotions
- ✓ Profits can exist in the short run, but others bid them away in the long run
- ✓ Equate MC with MR, but price off the downward sloping demand curve



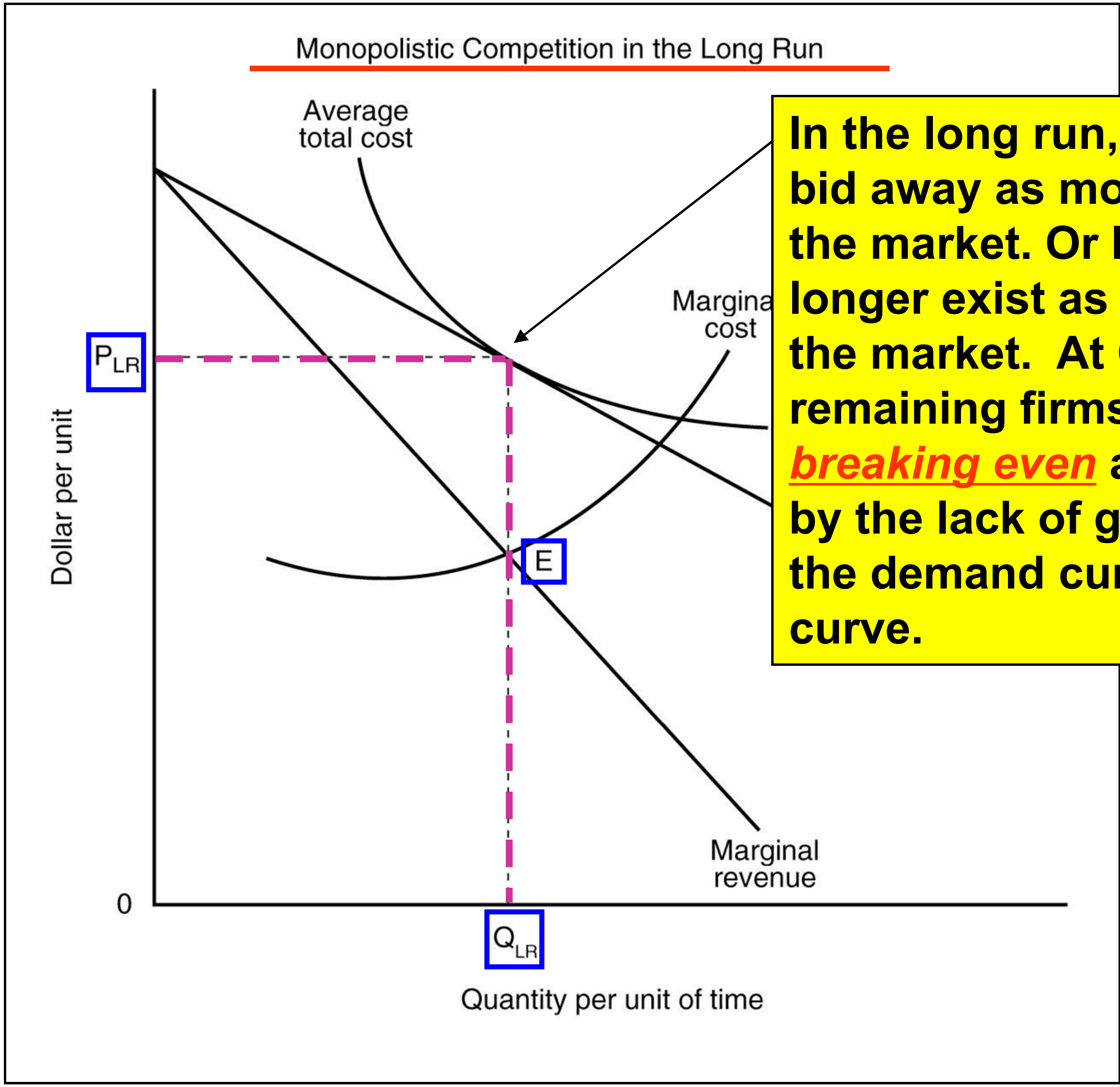

**<u>Short run profits</u>. The firm produces $Q_{SR}$ where MR=MC at E above, but prices its products at $P_{SR}$ by reading off the demand curve which reveals consumer willingness to pay**




**<u>Short run loss</u>. The firm suffers a loss in the current period following the same strategy of operating at $Q_{SR}$ given by MC=MR at point E.**



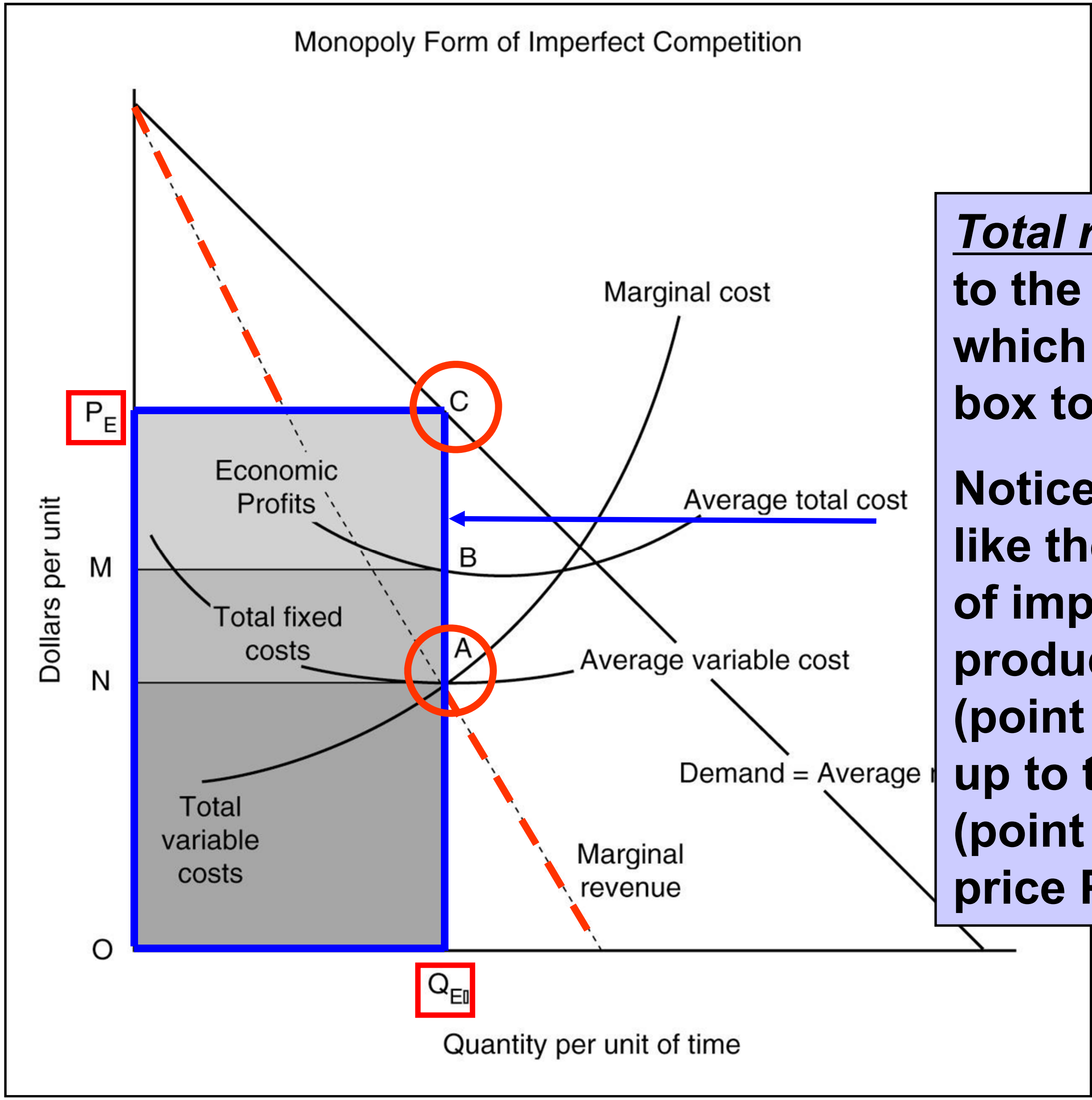

**At quantity $Q_{SR}$, average total cost ($ATC_{SR}$) is greater than $P_{SR}$, which creates the loss depicted above…**




**In the long run, profits are bid away as more firms enter the market. Or losses will no longer exist as firms leave the market. At $Q_{LR}$, the remaining firms are just *breaking even* as shown by the lack of gap between the demand curve and ATC curve.**

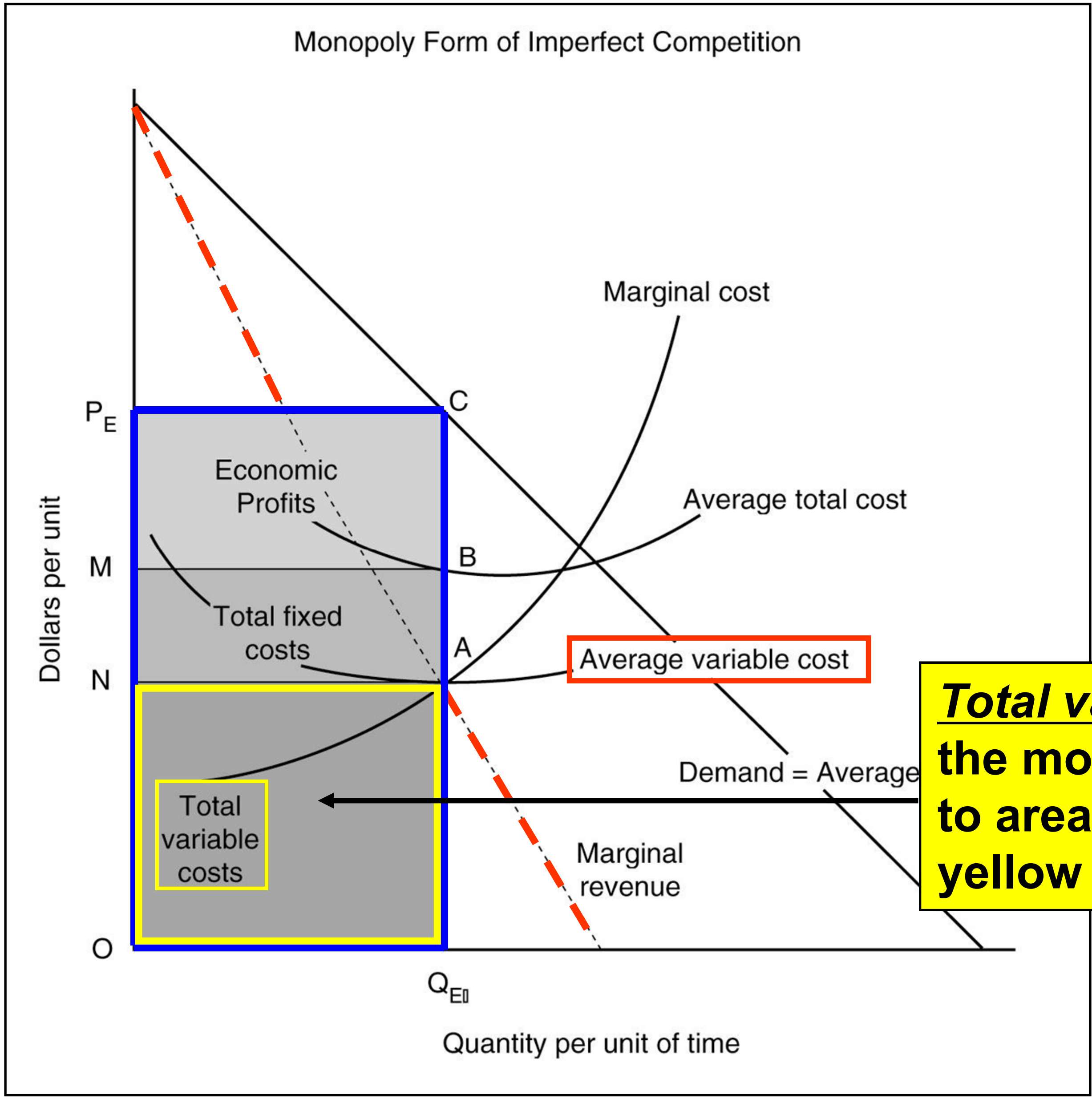
# Monopolies

- Only seller in the market.
- Entry of other firms is restricted by patents, etc.
- They have absolute power over setting market price.
- They produce a unique product.
- They can make economic profits in the long run because they can set price without competition.

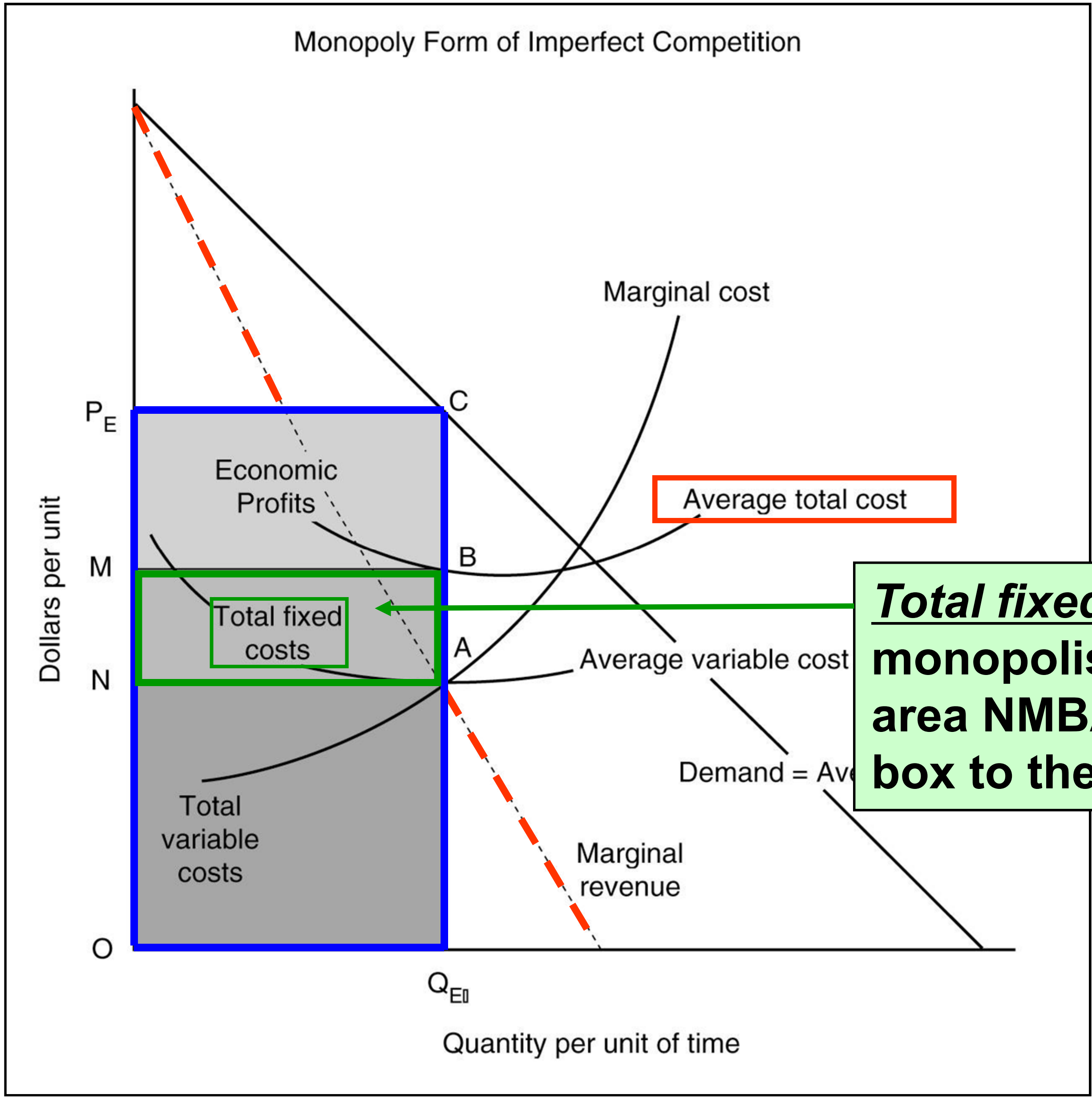



***<u>Total revenue</u>*** **is equal to the area $0P_ECQ_E$, which forms the blue box to the left…**

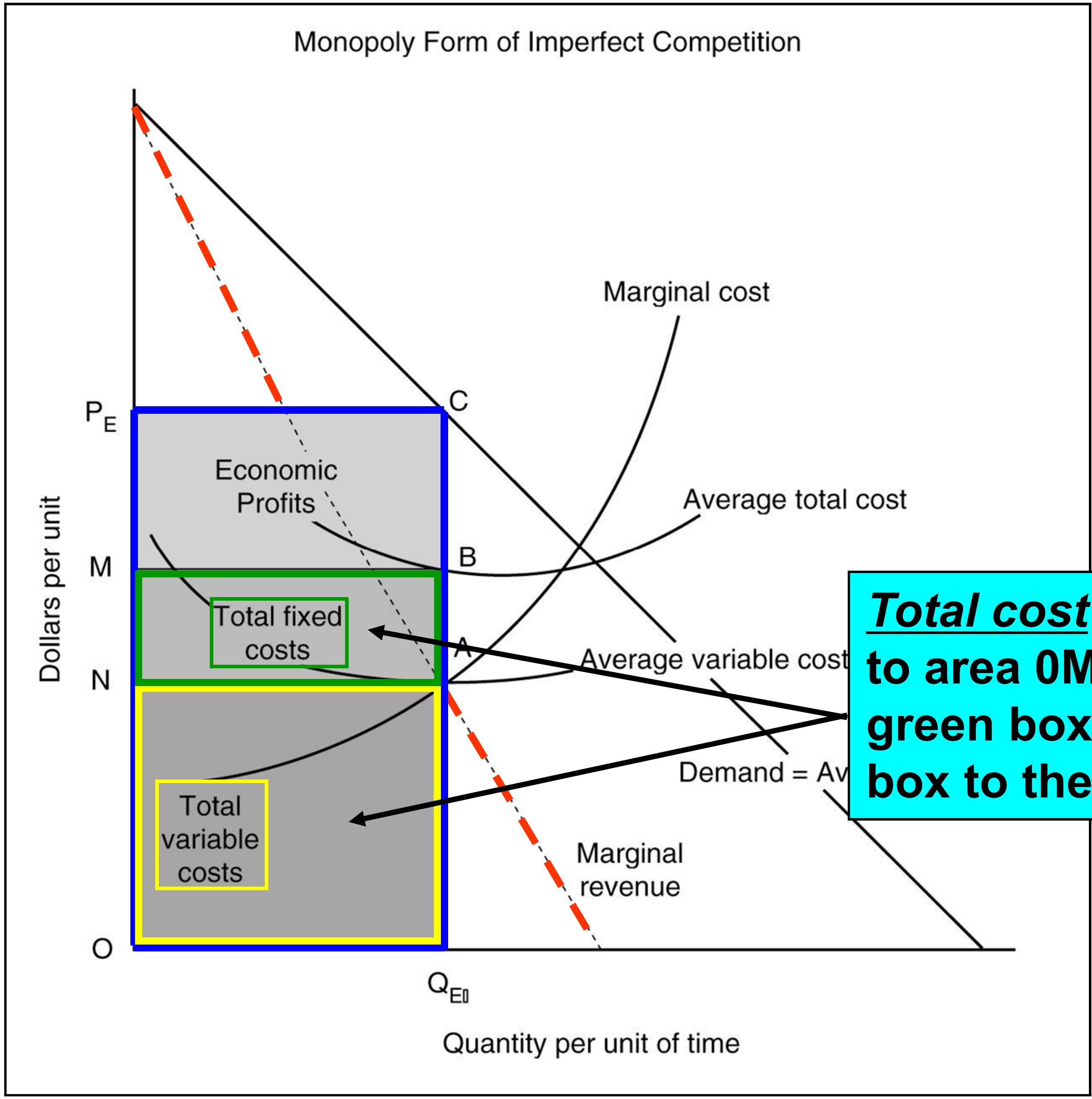
**Notice the monopoly, like the previous forms of imperfect competition, produces where MC=MR (point A), but then reads up to the demand curve (point C) when setting price $P_E$.**



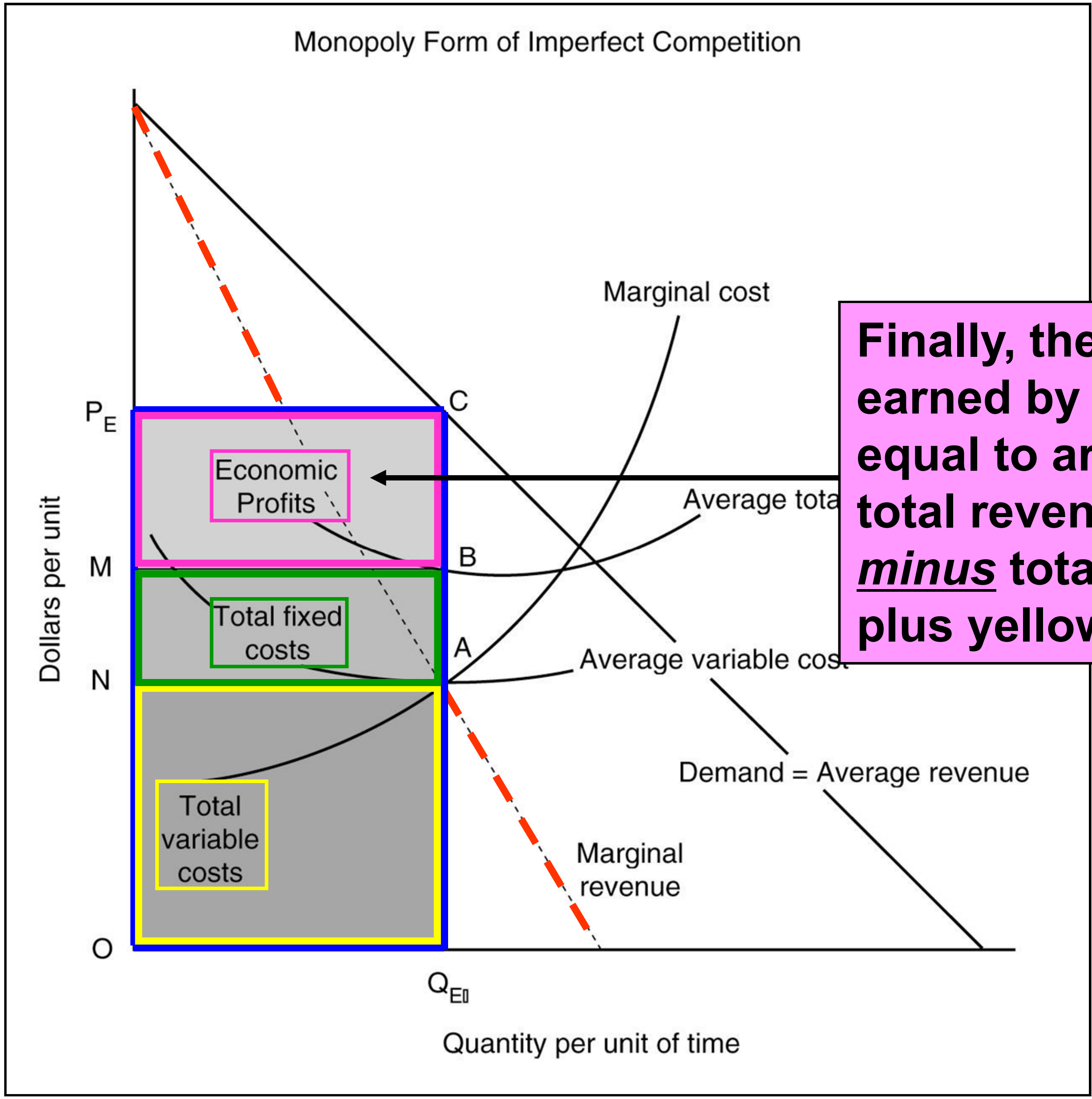

***Total variable costs*** **for the monopolist is equal to area $0NAQ_E$, or the yellow box to the left.**




***<u>Total fixed costs</u>*** **for the monopolist is equal to area NMBA, or the green box to the left…**




***Total cost*** **is therefore equal to area $0MBQ_E$, or the green box *plus* the yellow box to the left.**




**Finally, the *<u>economic profit</u>* earned by the monopolist is equal to area $MP_ECB$, or total revenue (blue box) *<u>minus</u>* total costs (green box plus yellow box).**