College Textbooks

• Suppose a book costs $90 and has MC of $20. We can figure out the price elasticity of demand

\[
\frac{P - MC}{P} = -1
\]

\[
\eta = \frac{90 - 20}{90} = -1
\]

\[
\eta \approx 1.28
\]

That is not the end of the story

• Entry

College Textbooks

• Entry

• Non-price competition
Applying Monopolistic Competition

College Textbooks

- That is not the end of the story
- Entry
- Non-price competition
  - Slick books
  - “Freebies for instructors”

High Costs \(\Rightarrow\) High Prices

Price Elasticity of Demand

Monopoly Prices

Non-price Competition

High Costs

K Mart is in Trouble. Why?

Applying Monopolistic Competition

Price | Quality
--- | ---
X | Y

K Mart

Applying Monopolistic Competition

Price | Quality
--- | ---
K-mart | Target
Wal-Mart

K Mart is in Trouble. Why?

Applying Monopolistic Competition

Price | Quality
--- | ---
W | K | T

On the Beach

Applying Monopolistic Competition

Price | Quality
--- | ---
W | K | T

On the Beach

Applying Monopolistic Competition

Price | Quality
--- | ---
W | K | T

On the Beach

Applying Monopolistic Competition

Price | Quality
--- | ---
W | K | T
Applying Monopolistic Competition

**On the Beach**

- **P**
- **Q**
- **W**
- **K**
- **T**

Applying Monopolistic Competition

**K-Mart Strategies**

- **P**
- **Q**
- **W**
- **K**
- **T**

Improve quality and compete with Target. The problem is that it must improve perceived quality.

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Cut price and compete with Wal-Mart. The problem is that no one thinks they can compete with Wal-Mart on price.

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Think outside the box. Buy Sears and Transform the Company.

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**Conclusion**

- Product Differentiation can give some monopoly pricing
- But competition does not disappear
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Conclusion

• Product Differentiation can give some monopoly pricing
• But competition does not disappear
• Non price competition rears its head
• The process continues until, like competitive firms, businesses are earning zero profits.

End

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