Monopolistic Competition

- If your product has perfect substitutes, you must price competitively and act competitively.

• But suppose you can “differentiate” your product.
  – Then you have some element of monopoly.
  – If you raise your price a little, you won’t lose all your customers.

Differentiating your product

- In some cases you can differentiate because of ignorance

  • Suppose you have two products
    – Feel Good, a prescription tranquilizer
Differentiating your product

• In some cases you can differentiate because of ignorance
• Suppose you have two products
  – Feel Good, a prescription tranquilizer
  – Super Bug Killer, a powerful antibiotic.

When the Patents Expire

• Super Bug Killer
  – Price goes, almost immediately, to competitive price
• Feel Good
  – You manage to keep some monopoly power

Is this because people are Yahoos?

• Information is costly

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• In a strange town:
  – McDonalds is next to “Jim and Marie’s Quick Hamburgers”. Where do you go for lunch?
Is this because people are Yahoos?

- Information is costly
- In a strange town:
  - McDonalds is next to “Jim and Marie’s Quick Hamburgers”. Where do you go for lunch?
  - “Jim and Marie’s Quick Hamburgers” and “Better Burgers” are next door. “Better Burger” is the more expensive. Where do you go?

Product Positioning

- Another example
  - McDonalds is next door to your motel; Burger King is half a mile away. Where do you go for breakfast?

Product Positioning

- Another example
  - McDonalds is next door to your motel; Burger King is half a mile away. Where do you go for breakfast?
- This is an example of location advantage. Other things equal, people go to the closer location.

End