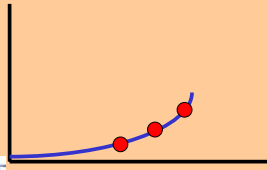


Applying Monopolistic Competition



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College Textbooks

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

$$\frac{P - MC}{P} = \frac{-1}{\eta}$$

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Applying Monopolistic Competition

College Textbooks

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

$$\frac{P - MC}{P} = \frac{-1}{\eta}$$

$$\eta \approx 1.28$$

$$\frac{90 - 20}{90} = \frac{-1}{\eta}$$

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Applying Monopolistic Competition

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- That is not the end of the story

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Applying Monopolistic Competition

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- That is not the end of the story
- Entry

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- That is not the end of the story
- Entry
- Non-price competition

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Applying Monopolistic Competition

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

College Textbooks

High Costs \Rightarrow High Prices

College Textbooks

High Costs \Rightarrow High Prices

Price Elasticity of Demand

College Textbooks

High Costs \Rightarrow High Prices

Price Elasticity of Demand



Monopoly Prices

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High Costs \Rightarrow High Prices

Price Elasticity of Demand



Monopoly Prices



Non-price Competition

College Textbooks

High Costs \Rightarrow High Prices

Price Elasticity of Demand



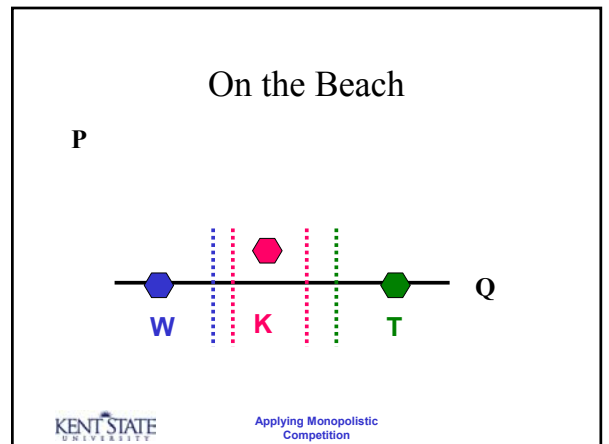
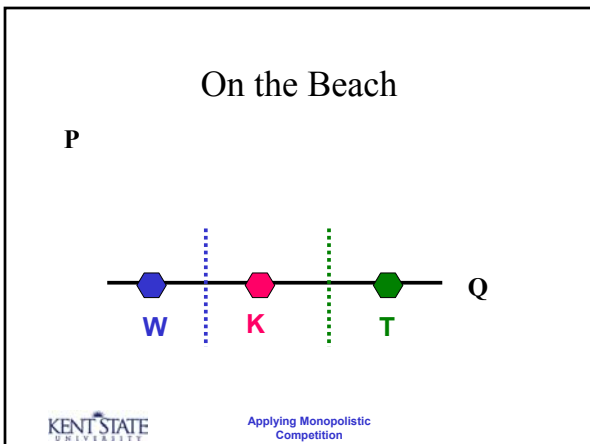
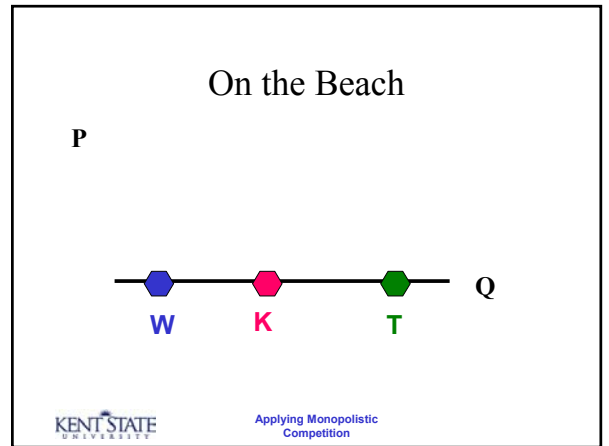
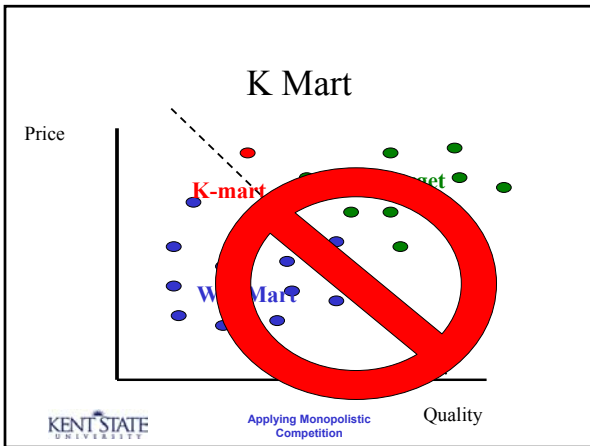
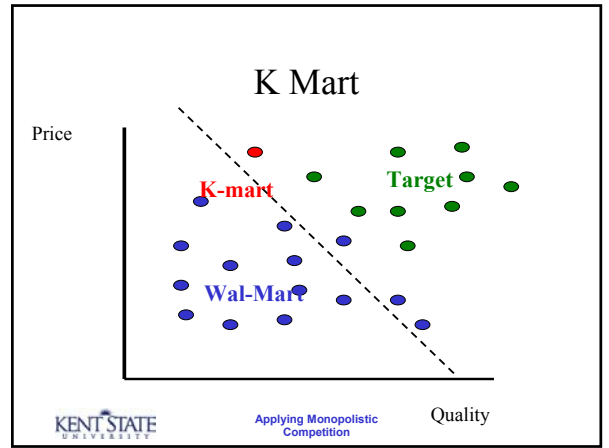
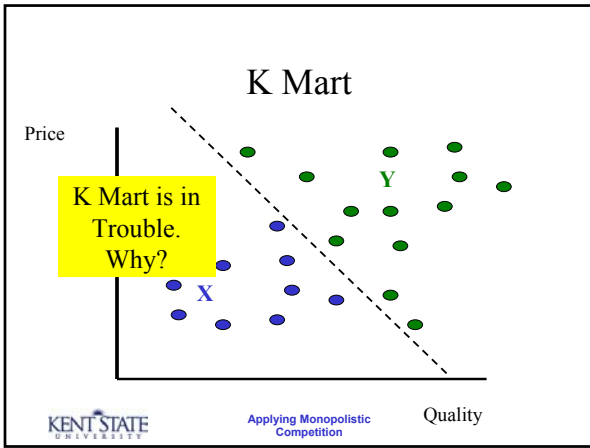
Monopoly Prices



Non-price Competition

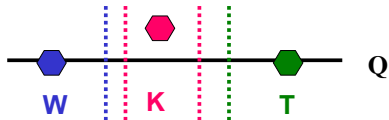


High Costs



On the Beach

P



K-Mart Strategies

P

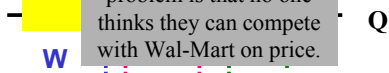
Improve quality and compete with Target. The problem is that it must improve perceived quality.



K-Mart Strategies

P

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



K-Mart Strategies

P

Improve quality and cut price and compete with Wal-Mart. The problem is that no one thinks they can compete with Wal-Mart on price. **Think outside the box. Buy Sears and Transform the Company**



Conclusion

- Product Differentiation can give some monopoly pricing

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- 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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W. Upton