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

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Differentiating your product

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- 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?
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- 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?

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  - 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

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