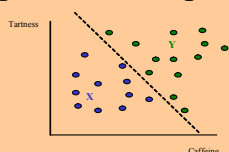


## Monopolistic Competition



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- 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

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- In some cases you can differentiate because of ignorance
- Suppose you have two products
  - Feel Good, a prescription tranquilizer
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  - When the patents are valid, you have simple monopoly power.

## When the Patents Expire

- Super Bug Killer
  - Price goes, almost immediately, to competitive price

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

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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?

## 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

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