

# **MARKET STRUCTURE**



## **MONOPOLISTIC COMPETITION**

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# MONOPOLISTIC COMPETITION

## ○ Definition

The form of market structure with many seller and many buyers. It is a combination of perfect competition and monopoly.

## ○ Assumptions

1. There are large number of sellers (but less than perfect competition) and buyers.
2. The products of sellers are differentiated under a trade mark but they are close substitutes of each other.

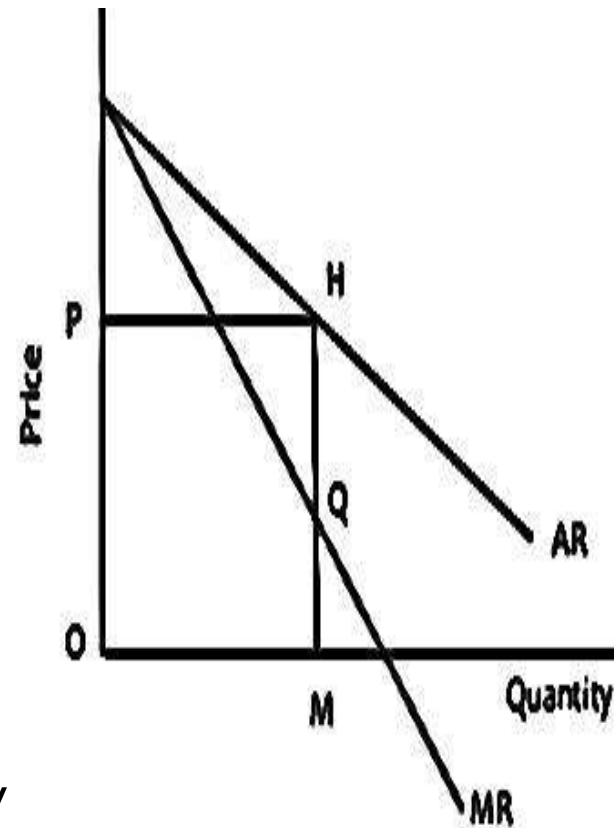
## ASSUMPTIONS

3. There is free entry and exit of firms in a market.
4. Firms are price maker that is firm itself set the price of a product.
5. Consumers, resource owners and firms in the market have perfect knowledge of prices and trademark because it is labeled on the product.
6. The demand curve of a firm is downward sloping and also the average revenue curve.



## REVENUE CURVES

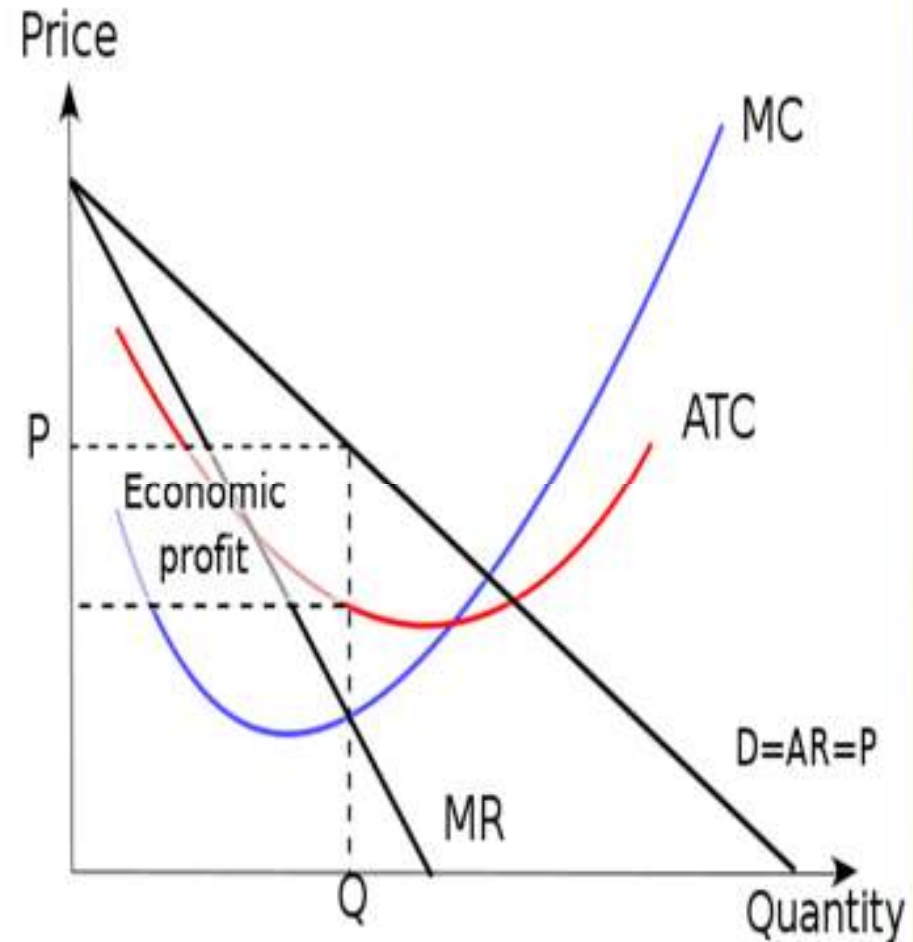
- In case of monopolistic competition, demand curve is negatively sloped.
- In case of monopolistic competition, price is equal to average revenue.
- Demand or AR curve is relatively elastic as compared to monopoly due to the availability of close substitutes.



# PROFIT MAXIMIZATION

Profit is maximum when

- $MR = MC$
- $P > AC$
- MC curve intersects the MR curve from below



# OLIGOPOLY

- The market organization in which there are few sellers of a homogeneous or a differentiated product is known as oligopoly.
- The oligopolist can set the price of the product.

## CARTEL

- A formal organization of producers within an oligopolistic industry that determines policies for all firms in the cartel, with a view to increasing total profits for the cartel.

## CENTRALIZED CARTEL

- A cartel that makes all decisions for the member firms, leading to the monopoly solution.

## LINKS OF VIDEO LECTURES

- ◉ <https://youtu.be/PzDthFTzEa0>
- ◉ <https://youtu.be/RUVsEovktGU>
- ◉ <https://youtu.be/N0L00FZnhtg>