

Monopoly

- 1 firm
- able to prevent direct competition (barrier to entry)

Profit \rightarrow drives entry
 \rightarrow entry close substitute but different

Monopolistic Competition

Structure → few firms (recognize interdependent)

→ similar but not same

← product → product
differentiation

Brand name
↳
advertise

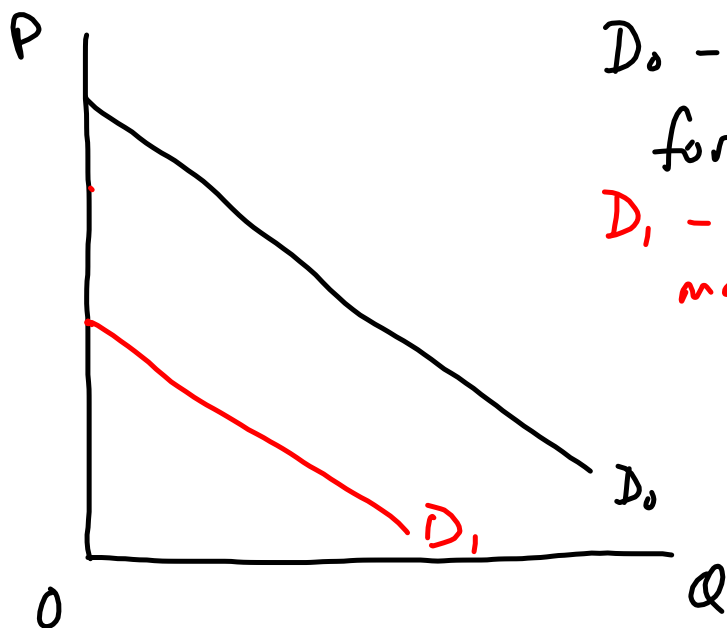
Conduct - monopoly power - set

own price

- compete on product character.

Performance → short run - $\pi > 0$

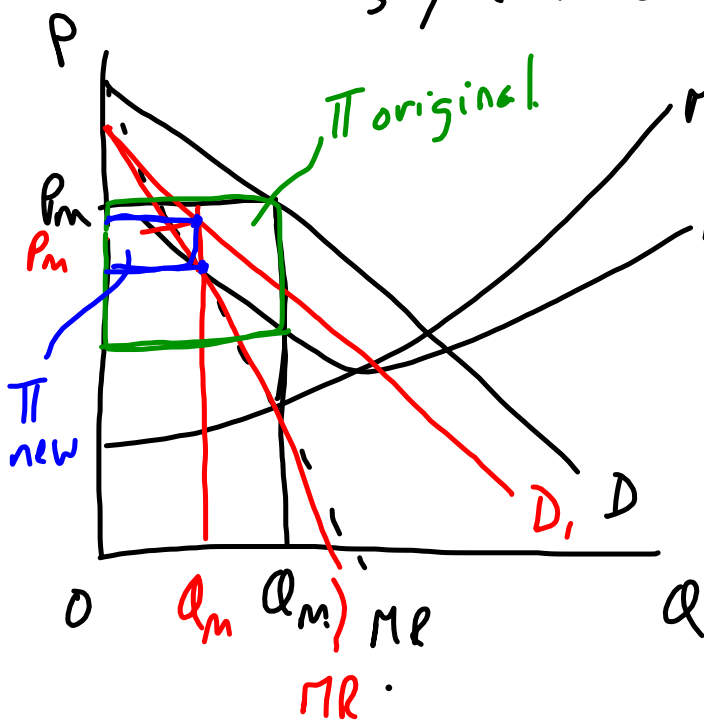
→ long run - $\pi = 0$



D_0 - original D
for monopolist

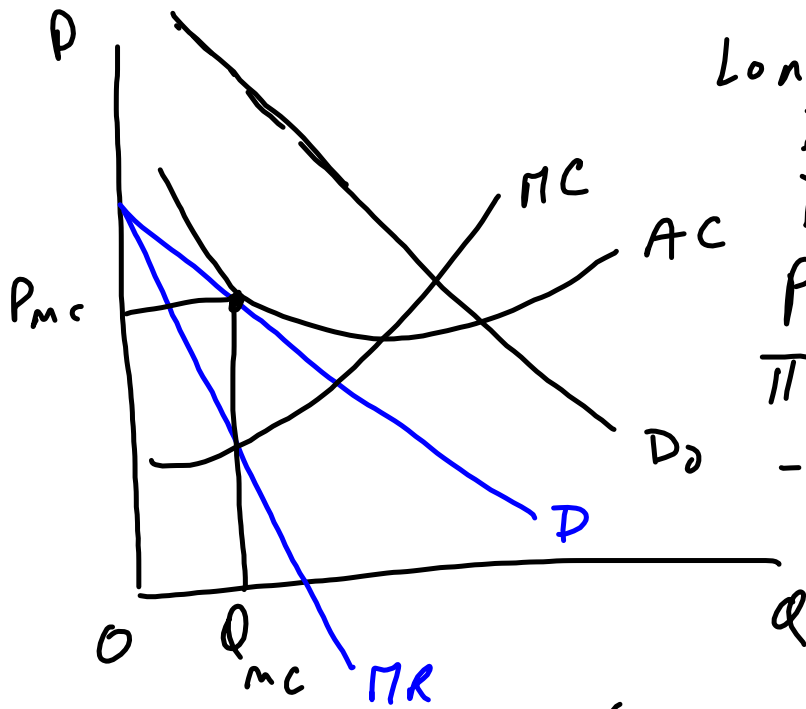
D_1 - entry $\frac{1}{2}$
market D_0

Less extreme - new entrant captures say 20% of market



(P_m, Q_m) start
- entry - new
firm - takes 20%
market
D for incumbent ↓
 (P_m, Q_m) new
costs stay same
but $D \downarrow \rightarrow \pi \downarrow$

Short run - $\pi > 0$



Long run
entry drives
D ↓ until.

$$P = AC$$

$$\pi = P \cdot Q_{mc} - AC \cdot Q_{mr.}$$

- entry stops
here

Long run monopolist $\pi > 0$

" " monopolistic comp $\pi = 0$

Fig 3 Chap 16

Structure - small number of firms
 - product differentiation
 degree depends on scope of
 patent protection
 - brand names - copyright

Advertising - conduct.

expenditure - convey info?
 - persuasion?

distortion of preferences - bad.

regulations require disclosure

- truthful statements
 - exempt politics
 - " religion]

Beneficial side - information
creates brand name
- firm invests in brand name
- if firm product quality ↓ loss of
reputation -
with asymmetric info
brand name assurance of quality
(prevent loss of name value
equivalent to performance bond.
loss bond (value of brand
name) for poor performance