CHAPTER 8: SECTION 3

A Monopolistic Competitive Market
Characteristics of a Monopolistic Competitive Market

- A **monopolistic competitive market** has the following characteristics:
  
  - It has many buyers and many sellers.
  
  - Firms in the market produce and sell slightly differentiated products. This characteristic is unique to a monopolistic competitive market.
  
  - Firms in the market can easily enter and exit the market.
Monopolistic Competitive Firms Are Price Searchers

- In a monopolistic competitive market, a firm can change the price of its product and still expect to sell some, if not all, units. This is because what it sells is not identical to any other product in the market.

What Do Monopolistic Competitive Firms Do?

- Again, monopolistic competitive firms produce the quantity of output at which marginal revenue equals marginal cost. The price at which they sell their product is the highest price per unit at which they can sell their entire output.
How Are Monopolistic Competitors’ Products Different?

- Even similar products can be differentiated. For example, two physically identical products that are sold in different locations are considered different products. Packaging, sales service, and delivery options are further examples of differentiation.

- Most firms would rather differentiate their products from competitors. Doing so allows them to act more as monopolistic firms when determining price.
What Matters Is How Much Competition a Seller Faces

How much competition a seller faces principally depends on two factors:

• how close to unique a seller’s product is
• how easy it is for new sellers to enter the market

How much competition does a monopoly seller face? It faces less competition than either a perfect competitor or a monopolistic competitor. It sells a product that has no close substitutes. Consumers buying from monopoly sellers have fewer options available to them.
CHAPTER 8: SECTION 4
An Oligopolistic Market
Characteristics of an Oligopolistic Market

- An oligopolistic market has the following characteristics:
  - It has few sellers.
  - Firms in the market produce and sell either identical or slightly differentiated products.
  - The barriers to entry are significant.

- Oligopolistic firms are price searchers. They can raise the price of their good and still sell some, or all, of their product.

- Oligopolistic industries can be identified by looking at the percentage of sales accounted for by the top four firms in the industry. If only a few firms account for a large percentage of sales, then the market is considered oligopolistic.
How Much Competition Do Oligopolists Face?

- According to the conditions that characterize oligopoly, an oligopolist’s product is not unique, so the market should be competitive. However, it is difficult to enter an oligopolistic market.
Cartels

- A cartel agreement specifies how the firms that entered into the agreement will work together to reduce the competition among them.
- In the United States, cartel agreements are illegal.
Is It Buyers Against Sellers or Sellers Against Buyers?

- The threat of actual or potential competition from other sellers leads sellers to share the same interests as buyers. For instance, both sellers and buyers want to keep prices down. Buyers want to buy lower-cost items so that they have more money available for other purchases. Sellers want to sell lower-cost items so that they can beat their competitors in pricing.

- Competition between sellers tends to keep both prices and costs down.
Price Discrimination

- **Price discrimination** occurs when a seller charges different prices to different buyers for the same product, and the cost of offering the product is the same for all those buyers.

- A seller may want to price discriminate to sell all of its output for the highest total revenue.

- For price discrimination to work, different customers must be willing and able to pay different prices for a good. Also, it must be impossible, or extremely costly, for a customer receiving the low price to resell the product to other potential customers.
A “senior discount” is an example of price discrimination.

Price discrimination is illegal only if it results in reduced competition or if the discriminating sales cross state lines.

Price discrimination is legal as long as no injury occurs to competition. It is also legal if the seller can show that charging a lower price to some customers is necessary to adequately compete in the market.
### Conditions That Characterize Various Markets

<table>
<thead>
<tr>
<th>Market</th>
<th>Number of sellers</th>
<th>Type of product</th>
<th>Barriers to entry</th>
<th>Control over price</th>
<th>Examples of products and services sold in this type of market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perfectly competitive</td>
<td>Many</td>
<td>Identical</td>
<td>No barriers</td>
<td>No control</td>
<td>Wheat, corn, stocks</td>
</tr>
<tr>
<td>Monopolistic</td>
<td>One</td>
<td>Unique</td>
<td>Extremely high barriers</td>
<td>Considerable amount of control</td>
<td>Water, electricity, delivery of first-class mail</td>
</tr>
<tr>
<td>Monopolistic competitive</td>
<td>Many</td>
<td>Slightly differentiated</td>
<td>No barriers</td>
<td>Yes, but not as much as in monopoly</td>
<td>Clothing, meals at restaurants</td>
</tr>
<tr>
<td>Oligopolistic</td>
<td>Few</td>
<td>Identical or slightly differentiated</td>
<td>Significantly high barriers</td>
<td>Yes, but not as much as in monopoly</td>
<td>Cars, cereal</td>
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</tbody>
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