Exercise walk-through

Monopolistic Competition ▪ 4.4

eXercise

You must be able to

- list the characteristics of **monopolistic competition 垄断竞争**
- determine the short-run profit-maximizing quantity using $MR = MC$
- explain the long-run equilibrium where demand is tangent to ATC and economic profit is zero
- explain why it is inefficient ($P > MC$) with **excess capacity 过剩产能**

Method — Characteristics

Many firms, **differentiated** products, and **free entry and exit**. Each firm has a little market power, so its demand slopes downward.

Method — Short run vs long run

Short run: produce where $MR = MC$; the firm may earn profit or loss. **Long run:** entry (or exit) shifts demand until it is **tangent to ATC**, giving **zero economic profit**.

Method — Inefficiency

It produces where $P > MC$ and **not** at minimum ATC, so it has **excess capacity**. Firms rely on product differentiation and advertising.

Practice 2.1 ▪ 2 marks

State two characteristics of monopolistic competition.

Solution 2.1

Worked steps

any two of: many firms, differentiated products, free entry and exit **B1** **B1**.

Practice 2.2 ▪ 1 mark

State the long-run economic profit level.

Solution 2.2

Method: Short run vs long run

Worked steps

zero economic profit (normal profit) B1.

Practice 2.3 ▪ 1 mark

State why monopolistic competition is inefficient.

Solution 2.3

Worked steps

it produces where $P > MC$ and above minimum ATC (excess capacity) B1.

Exam-style 3.1 ▪ 1 mark

In monopolistic competition, products are

A identical

B differentiated

C free

D unavailable

Solution 3.1

- **A** identical
- **B** differentiated ✓
- **C** free
- **D** unavailable

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

In long-run equilibrium, a monopolistically competitive firm earns

A economic profit

B a loss

C normal profit

D nothing at all

Solution 3.2

Method: Short run vs long run

A economic profit

B a loss

C normal profit ✓

D nothing at all

Worked steps

C.

Exam-style 3.3 ▪ 1 mark

A café in a town with many cafés is earning short-run economic profit.
(a) State what happens to its demand as new cafés enter.
(b) State its long-run economic profit.
(c) Name one form of non-price competition it might use.

Solution 3.3

Method: Short run vs long run

Worked steps

(a) its demand falls (shifts left) toward tangency with ATC **B1**. (b) zero economic profit **B1**. (c) advertising or product differentiation (any one) **B1**.