

4.4 Monopolistic Competition

Name: _____ Class: _____ Date: _____

Total: 9 marks

KEY WORDS differentiated 差异化 • monopolistic competition 垄断竞争 • excess capacity 过剩产能
 • market power 市场势力

Objective

Build the skills to answer exam questions on **monopolistic competition**.

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

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Characteristics

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

■ 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**.

■ Inefficiency

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

2 Practice

2.1 State two characteristics of monopolistic competition.

[2]

2.2 State the long-run economic profit level. [1]

2.3 State why monopolistic competition is inefficient. [1]

3 Exam-style questions

3.1 In monopolistic competition, products are [1]

- **A** identical
 - **B** differentiated
 - **C** free
 - **D** unavailable
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3.2 In long-run equilibrium, a monopolistically competitive firm earns [1]

- **A** economic profit
 - **B** a loss
 - **C** normal profit
 - **D** nothing at all
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3.3 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. [1]

(b) State its long-run economic profit. [1]

(c) Name one form of non-price competition it might use. [1]

Solutions

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

2.2 zero economic profit (normal profit).

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

3.1 B.

3.2 C.

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