- **M competition** ➔ A market structure in which there are many Firms selling differentiated products a few barriers to entry.
  - 4 distinguishing characteristics:

<table>
<thead>
<tr>
<th>Many</th>
<th>Differenced products</th>
<th>Multiple dimensions of competition</th>
<th>Easy entry of new firms in the long run</th>
</tr>
</thead>
<tbody>
<tr>
<td>In M competition, firms don't take into account rival's reactions. There are so many firms that one firm can't concern itself with the reaction of any specific firm. ie. Soap industry</td>
<td>The &quot;many sellers&quot; characteristic gives monopolistic competition its competitive aspect. Product ≠ dives it its monopolistic aspect, as in perfect competition; they are differentiated slightly. So in one sense each firm has a monopoly in the good it sells.</td>
<td>In perfect competition, price is the only dimension on which firms compete; in monopolistic competition, competition takes many forms. Product ≠ attempts to competed on perceived attributes. Competition: * service * distribution outlets * advertisement * compare MC &amp; MB * Change the dimension of competition until marginal MC = MB</td>
<td>There must be no significant entry barriers in MCompet. Barriers to entry create the potential for long-run economic profit and prevent competitive pressures from pushing price down to ATC</td>
</tr>
</tbody>
</table>

- **Advertising in Monopolistic competition:**
  - Firms in Perfectly competitive market have no incentive to advertise (since they can sell all they want at market price) ≠ Monopolist competition have a strong incentive: advertising therefore plays an important role in providing with that differentiation.
  - **Goals of advertising:** shifting the firm’s demand curve to the right and making it more inelastic
    - Making people only want a specific brand ➔ Firm can sell more and/or charge higher prices
    - Advertising shifts the ATC curve up ➔ Advertising must be considered in both benefits and costs
    - Ads helps or hurt society?
  - There is a certain waste in much of the differentiation. That waste shows up in the graph by the fact that monopolist competitors don't produce at the minimum point of their ATC curve.
  - **E. Chamberlin & J. Robinson** ➔ originator of the description of monopolistic competition: they believed that the ≠ between the cost of a perfect competitor & the cost of a monopolistic competitor was the cost of what he called "differentness". If consumers are willing to pay that cost, then it's not a waste but rather a benefit to them.

- Output price and profit of a monopolist competitor:

**QUIZZ:**

⚠ The economic profit is an abnormal profit regarding accounting standards (said normal profit)
Realize competition involves companies trying to escape competition, and perhaps establish monopoly ➔ so Monopoly & perfect competition are not in application antithetical

⚠ Every time you move to the Long Run, short runs are taking place… there is no such thing as a real long run.