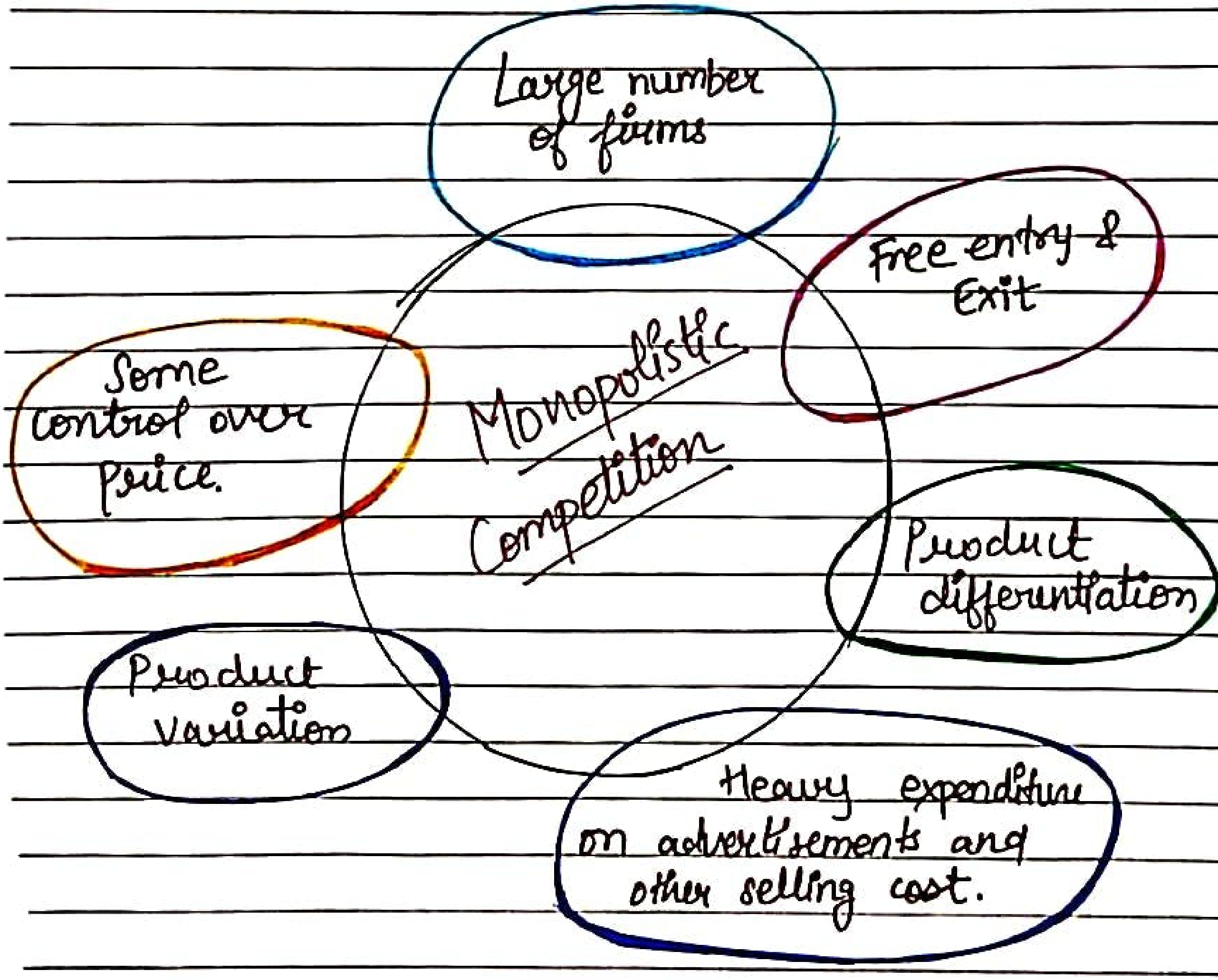
Monopolistic Competition

- A market situation where we find a large number of buyers and sellers.
- Sell products that are differentiated from one another (e.g. by branding or quality) and hence are not perfect substitutes.
- A firm takes the price charged by its rivals as given and ignores the impact of its own prices on the prices of other firms.



1. A Large number of sellers and Buyers :

- Each firm acts independently, each firm has a limited share of the market and the size of each firm is small. However, this number is less than the number of sellers in perfect competition.

2. Freedom of Entry and Exit :

- The freedom to enter and exit is there, but firms don't have absolute freedom to enter into the industry as some firms are legally patented and carry a brand name.

3. Product differentiation :

- Product differentiation refers to differentiating the product on the basis of brand, size, color, shape etc.

4. Selling Cost

- Selling costs are the expenses that are incurred for promoting sales or for inducing customers to buy the good of a particular brand.

- These include the cost of advertisement through newspapers, tv and radio, free sampling, show windows, salaries of salesman, costs of other sales promotion activities. These costs are also called advertisement costs.

5. Lack of perfect Knowledge:

- Due to a large number of buyers and product differentiation, it is not possible to compare the prices of different product, and thus, buyers are are not fully aware of the prevailing prices of all products.

6. Non-price Competition:

- Monopolistic firms generally don't disturb the price of products and they attract customers by giving free gifts, services, coupons and other attractive schemes.

- Thus non-price competition refers to competing with other firms by offering free gifts, making favorable credit terms etc without changing the prices of their own products.

7. Downward sloping demand curve

- It means to sell more, a firm has to reduce price, but due to the availability of close substitutes, it is more elastic or flatter than the demand curve of a monopoly firms

8. Less Mobility:

- There is no perfect mobility of factor owners as fop are not fully aware of prices being paid by different firms to factor owners for their services.