

## 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.