(Question No.)

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Topic - Pricing under monopolistic competition (D1)

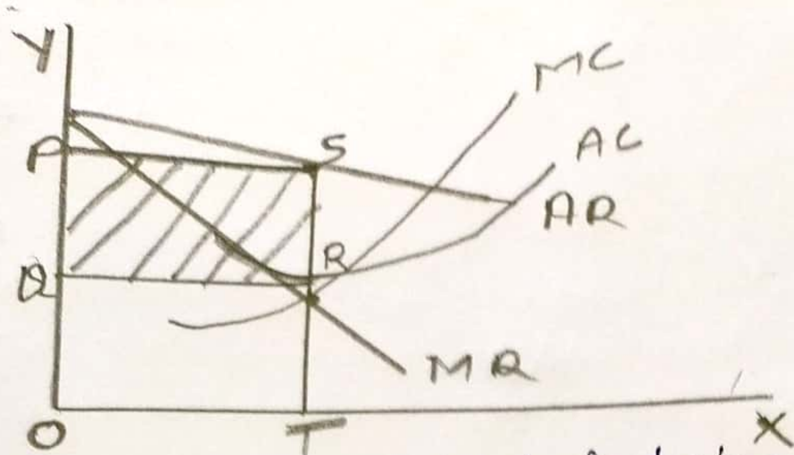
The concept of imperfect competition has been elaborately analysed by Mrs. John Robinson. while the concept of monopolistic competition has been introduced by chamberlin in economic literature. These two concept refers to two market situations which are almost similar. In both market demand is not perfectly elastic implying that the demand curve will be downward sloping. A downward sloping demand curve indicates that the MR curve slopes below the AR and therefore Price is greater than MR.

In both markets firm may enter in the long run to compete away the excess profit. High prices and wastage of resources are the features of both of these market.

short-run equilibrium under the Monopolistic competition

Firms under monopolistic competition attain equilibrium when (i) MR = MC

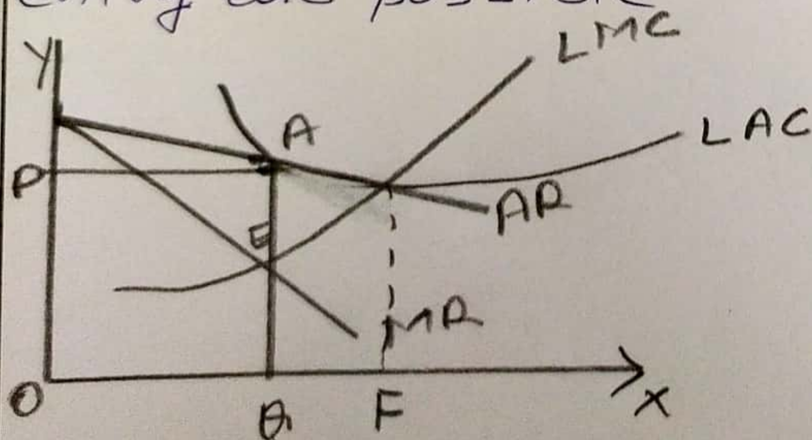
2. slope of MC > slope of MR.



Here in figure, At this price OP, AR > AC the firm earns a profit of PQRS. The firm may earn a profit. The firm may earn a profit or incurs loss or be at no loss no profit position depending upon demand condition and position of cost-curves.

Long run equilibrium under monopolistic competition

In the long run, price cutting expansion and contraction of output new entry are possible



Here abnormal profits earned in the short run will attract new entries. therefore the amount sold at any given price will fall resulting in the shift of demand curve until the abnormal profits are wiped out.

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