

EC 131 - Lecture 14

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Textbook readings: Chapter 16

1 Monopolistic competition

- Is it possible for a monopolist to have negative profits? Even in the long-run?
- Alternatives to monopoly and perfect competition models
 - Oligopoly (few firms, homogeneous good)
 - Monopolistic competition (many firms, product differentiation, free entry/exit)
- Short-run
 - Same as monopolist!
- Long-run
 - Positive profits: entry
 - Negative profits: exit
 - Demand shifts
 - Zero profits
- Differences with perfect competition
 - Excess capacity (not operating at the efficient scale)
 - Price higher than marginal cost