IMPERFECT COMPETITION

1. MONOPOLISTIC COMPETITION

Definition: It is amalgam of both monopoly & perfectly competitive market.

This sort of market structure was developed by Joan Robinson called 'imperfect competition' in England (1993) whereas at the same time Chamberlin developed the same market form in US in his famous book 'The Theory of Monopolistic Competition: A Re-Orientation of the Theory of Value'

Characteristics:

1. Large number of Sellers: number of sellers is sufficiently large but not significantly large like perfectly competitive market. Each firm has an insignificant share in the market. So any action taken by the firm does not affect the rival firms. Each firm behaves independently.
2. Nature of products: are slightly differentiated products or close substitute products.
3. Unrestricted entry: There is free entry & exit in the market/unrestricted entry.
4. Brand fascination: consumer loves variety & consumers have some brand fascination or preference over some products. Suppose consumer A has preference over SAMSUNG & consumer B has preference over LG. So each brand enjoys some degree of monopoly power over their products but ultimately they are competing with each other over their products.
5. Price policy & price line: Under perfectly competitive market price is market determined so there is no definite price policy. But in monopolistically competitive market firms enjoy some degree of monopoly power that's why there is some definite price policy & Price of monopolistically competitive market will lie in between price of monopoly & perfectly competitive markets. It is flatter than monopoly market & steeper than perfectly competitive market.

6. Selling cost: as products are slightly differentiated products so to inform the quality of the product advertisement is important. So total cost= cost of production + selling cost(advertisement cost)
7. Group Behavior: Prof Chamberlin first introduced the word "Group" rather than "Industry" where industry means collection of firms producing homogeneous products where group means collection of firms producing slightly differentiated products.
8. Non-price competition: firms do not enter into price competition. If a firm reduces its price by reducing rival's sale then rival firm will also reduce their price. Thus price competition will enter into the industry. To avoid this firms follow non price competition. Now Non-price competition means price of the product remains constant a firm can offer: after sales delivery, guarantee of repairs within a specific time, a gift scheme with purchases, a discount which is not declared before, free doorstep delivery.

Determinants of Demand:

According to Prof. Chamberlin there are 2 demand lines in monopolistically competitive markets:

1) Objective or Proportional or Actual Demand Line(DD)
2) Subjective or Perceived or Anticipated Demand Line(dd)

Objective or Proportional or Actual Demand Line (DD):

It represents "actual sale" on the assumption that "**firms within the same group will charge same price**".

Then like a typical firm, other firms in industry will charge price OP_2 & therefore actual demand falls to OQ_2 from OQ_3 so extra demand i.e. (OQ_3-OQ_2) is actually enjoyed by other monopolistic firms in industry. Here, rate of fall (rise) in Q < rate of rise (fall) in P so, elasticity (e) <1 (inelastic demand) & we have downward steeper actual demand line.

Subjective or Perceived or Anticipated Demand Line (dd):

It represents "anticipated sale" on the assumption that "**competitor or rival firm will not change its original price" or "no retaliation" i.e.** other firms will not change their price if one firm will change their price.

A typical firm cut their prices from OP_1 to OP_2 & expects a rise in demand from OQ_1 to OQ_3. Here, Here, rate of fall (rise) in Q > rate of rise (fall) in P so, elasticity (e) >1 (elastic demand) & we have downward flatter anticipated demand line.