

Learning Objectives

Chapter 16

In this chapter you will

- Analyse competition among firms that sell differentiated products
- Consider the key characteristics of monopolistic competition
- Consider monopolistic competition in the short run and the long run
- Compare the outcome under monopolistic competition and under perfect competition
- Consider the desirability of outcomes in monopolistically competitive markets
- Examine the debate over the nature and effects of advertising
- Be introduced to the theory of contestable markets
- Examine the debate over the role of brand names

You should be able to

- Show the long-run adjustment that takes place in a monopolistically competitive market when a firm generates economic profits
- Show why monopolistically competitive firms produce at less than efficient scale in the long run
- Discuss the inefficiencies of monopolistically competitive markets
- State the main characteristics of a contestable market
- Provide an argument in support of and in opposition to the use of advertising
- Provide an argument in support of and in opposition to the use of brand names