**Monopolistic Competition**

So far, we have looked at perfect competition, in the long-run this market structure is:

1.

2.

We will now look at a type of market structure that is known as **Monopolistic Competition.**

1. Consider the **Hairdressing Market.** This is one type of market that can be classified as monopolistically competitive.

|  |  |
| --- | --- |
| Level of Service |  |
| Price |  |
| Range of Services |  |
| Market Power |  |
| Barriers to Entry |  |
| Advertising/Promotion |  |

1. Complete the diagram below to illustrate the **short-run** and the **long-run**

position of this type of market.

### Price

1. **Price**

**Output**

### Output

1. Describe the **short-run** and the **long-run** position of this market below.

Short-Run

Long-Run

1. In what way is a Monopolistically Competitive Market **similar** to a Perfectly Competitive Market?
2. In what way is a Monopolistically Competitive market different from a Perfectly Competitive Market?
3. Can you think of any other markets that you would describe as Monopolistically Competitive?
*
*
*
1. On the diagram below can you illustrate a firm operating in a monopolistically competitive market that is actually making a **loss**.

### Price

**Output**

1. Why might the firm above be making a **loss**?

**Efficiency**

What we mean by efficiency in **Economics**. The different types of efficiency.

The level of efficiency in different market structures.

Productive Efficiency

1. Using the diagram below explain what is meant by the term ‘**Productive Efficiency**’

Cost per

**unit**

### Output

1. Why might ‘**Productive Efficiency**’ be linked with Economies of Scale ?
2. How might a firm achieve productive efficiency ? Try to think of at least **4 methods** that they could use.
*
*

Allocative Efficiency

1. What do you understand by the term ‘**Allocative Efficiency**?’
2. On the diagram below identify the point that is allocatively efficient.

### Price

**S**

D

**Outp**

**ut**

1. How could we describe the concept of allocative efficiency in simple terms ?

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Dynamic Efficiency

1. ‘Dynamic Efficiency’ can be defined as what?

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1. Illustrate the concept of **dynamic efficiency** on the diagrams below.

**Price**

**Price**

Output Output

1. How might a business **achieve** dynamic efficiency?

Efficiency in a Perfectly Competitve Market

1. Draw the perfect competition diagram (long-run) and identify whether firms operating in this market structure are dynamically, productively or allocatively efficient.

Price

### Output

|  |
| --- |
| Perfect Competition |
|  Productive Efficiency |  |
|  Allocative Efficiency |  |
|  Dynamic Efficiency |  |

1. Draw the Monopolistic Competition diagram below (**long-run**) and identify whether or not the firms that operate in this type of market are efficient.

Price

### Output

|  |
| --- |
| Monopolistic Competition |
|  Productive Efficiency |  |
|  Allocative Efficiency |  |
|  Dynamic Efficiency |  |

1. Finally let us consider a **Monopoly** and look at whether it might be regarded as efficient.

Price

### Output

|  |
| --- |
| Monopolistic Competition |
|  Productive Efficiency |  |
|  Allocative Efficiency |  |
|  Dynamic Efficiency |  |

1. Why is it often argued that Monopolists are more likely to be **dynamically efficient** then smaller firms ?