



Semester: 1/2011

EE 311 Microeconomic Theory

Exercise 8: Monopolistic Competition

Monopolistic Competition

1. Why is the firm's demand curve flatter than the total market demand curve in Chamberlin's model of monopolistic competition? Suppose a monopolistically competitive firm is making a profit in the short run. What will happen to its demand curve in the long run?
 2. If a monopolistically competitive firm makes a loss in the short run, explain graphically how this firm adjusts to the long-run equilibrium.
 3. In the long run, monopolistically competitive firms earn the same zero profit as perfectly competitive firms do. Can we conclude that the monopolistic market brings the same economic efficiency as a perfectly competitive market? If not, measure the social cost graphically.
 4. Given that in a monopolistically competitive market, the proportional demand equation is:
$$P = 55 - 8q$$
and the long-run average cost equation is:
$$LAC = q^2 - 8q + 46$$
for each firm
 - (a) Calculate the equilibrium price and output for this firm in the long run.
 - (b) Calculate the slope of the perceived demand curve of the firm at the equilibrium.
 - (c) Calculate the marginal revenue perceived by the firm at the equilibrium.
-