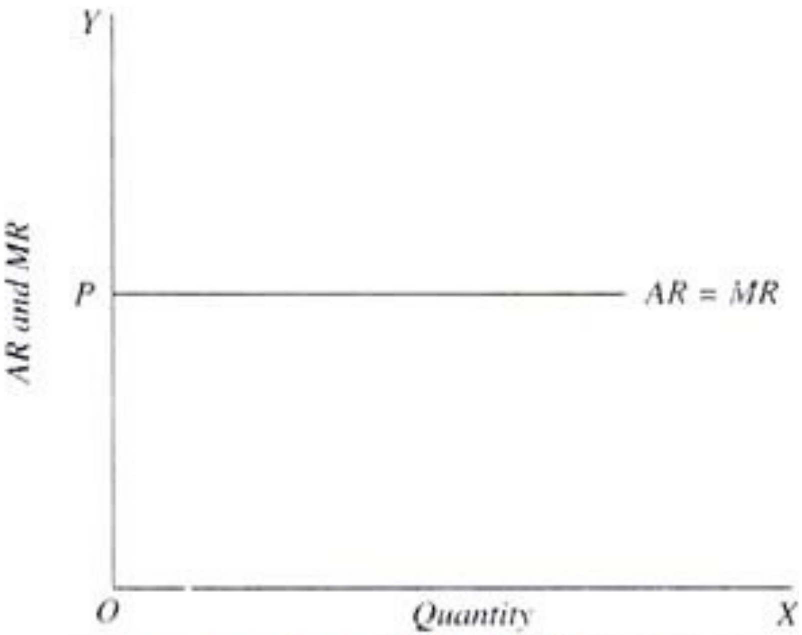
Course Title: Microeconomics-II
Course Code: ECON4006
Course Instructor: Mr. Bidhubhusan Mishra
Topic: Comparison Between Perfect Competition and Monopolistic Competition

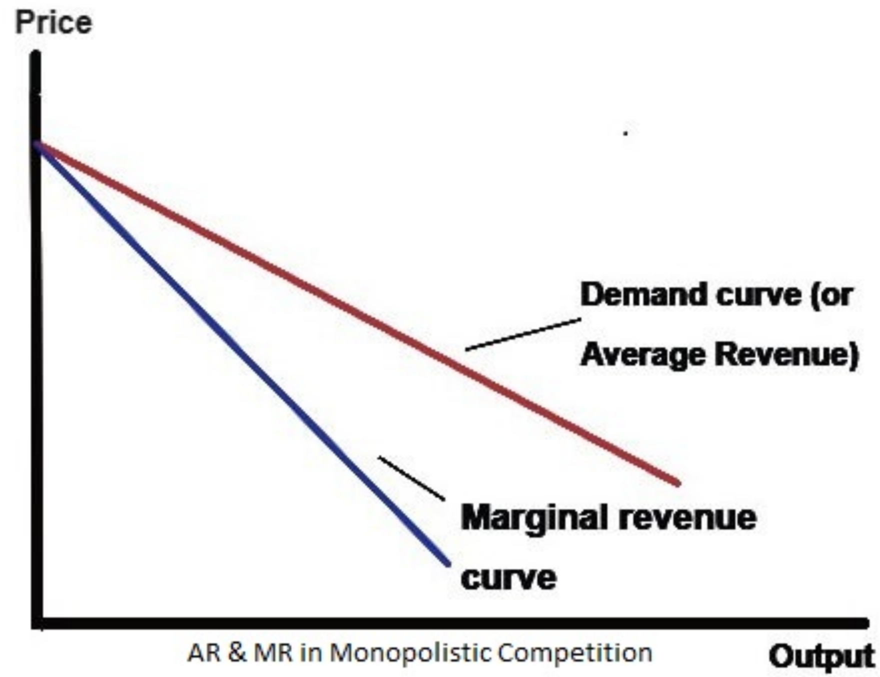
Difference in Characteristics

Parameters	Perfect Competition	Monopolistic Competition
Number of Buyers & Sellers	Many	Many
Nature of Product	Homogenous, Perfect Substitutes	Differentiated Product, Close Substitutes
Entry & Exit	Free in the Longrun	Free in the Longrun
Firms	Are only price takers, They cannot influence price	Firms are not just price takers. They can influence price by changing supply.
Advertisement	There is no advertisement cost	Little expenditure on advertisement

Demand Curve, AR & MR Curve



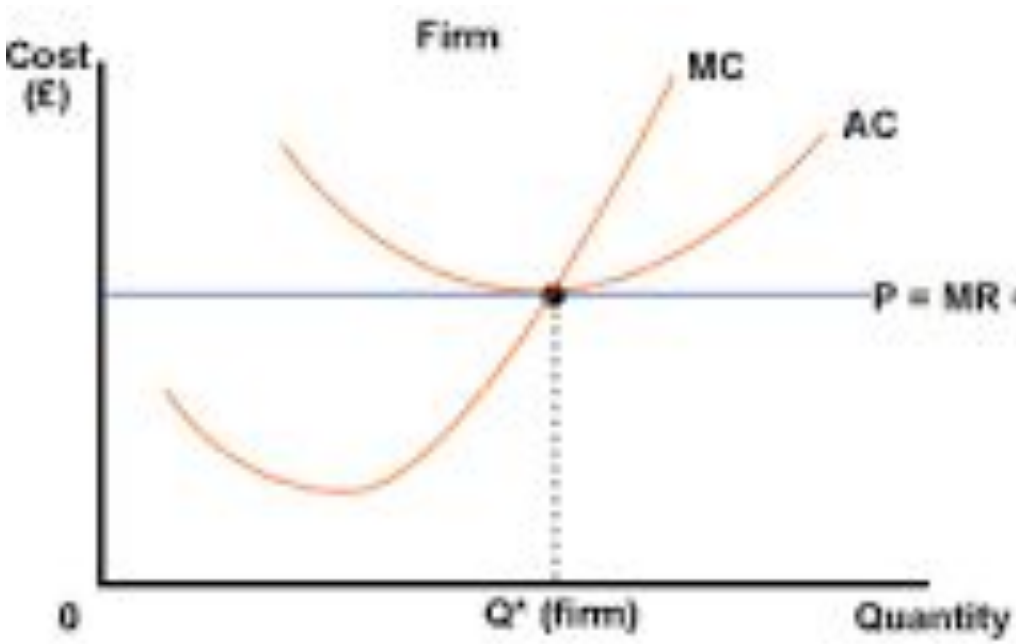
AR & MR in Perfect Competition

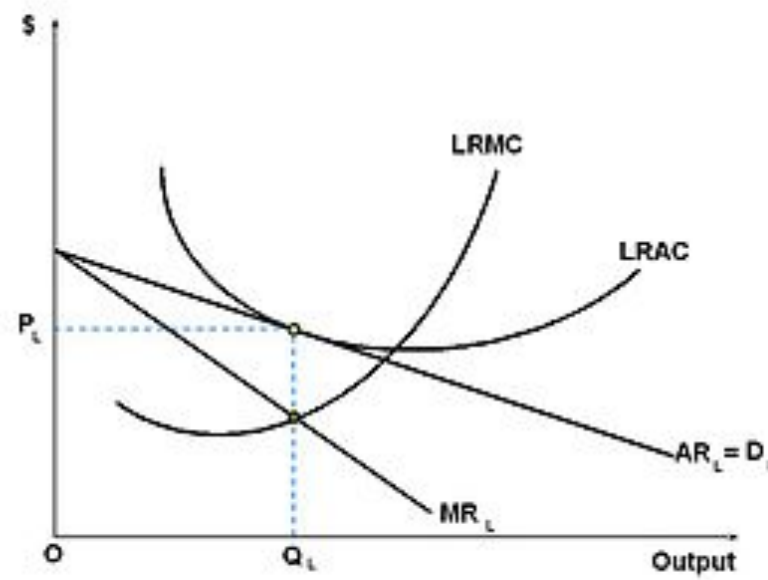


AR & MR in Monopolistic Competition

- As the above figure shows, the demand curve under perfect competition is horizontal or perfectly elastic. But the demand curve under monopolistic competition is downward sloping.
- Under perfect competition price remains same for all the units of the commodity but in monopolistic competition price falls as the supply increses.

Difference in Price and Marginal Cost

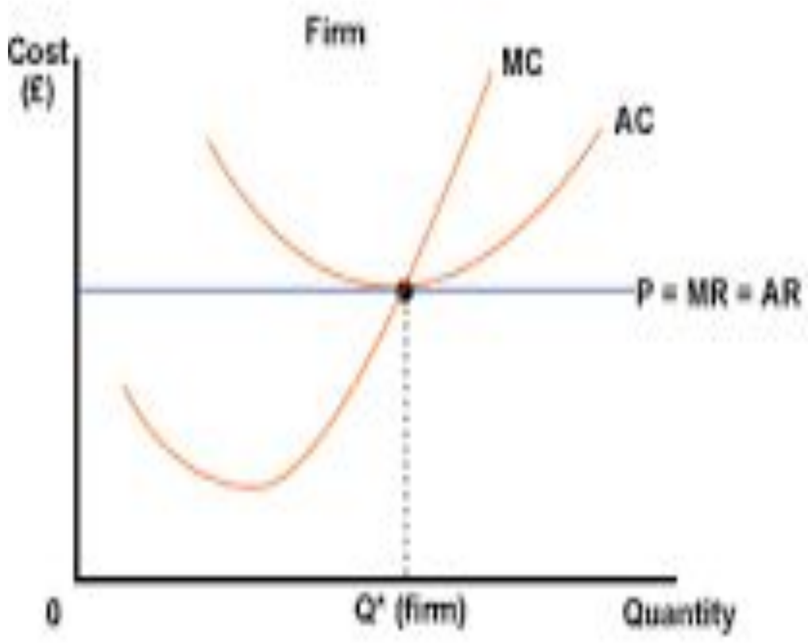




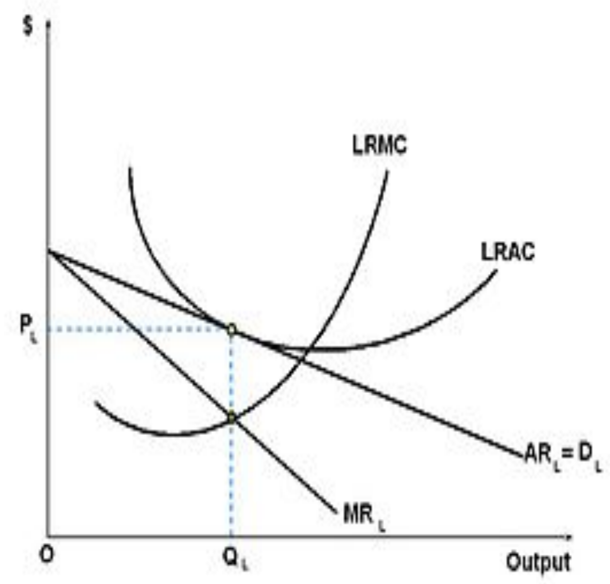
- In the above figure the left panel shows the equilibrium under perfect competition in which the price is equal to marginal cost.
- The right panel shows the equilibrium under monopolistic competition in which the price is not equal to marginal cost. Here price always remains higher than the marginal cost since AR curve lies above the MR curve.

Price & Output

- Price is lower and output is higher under perfect competition

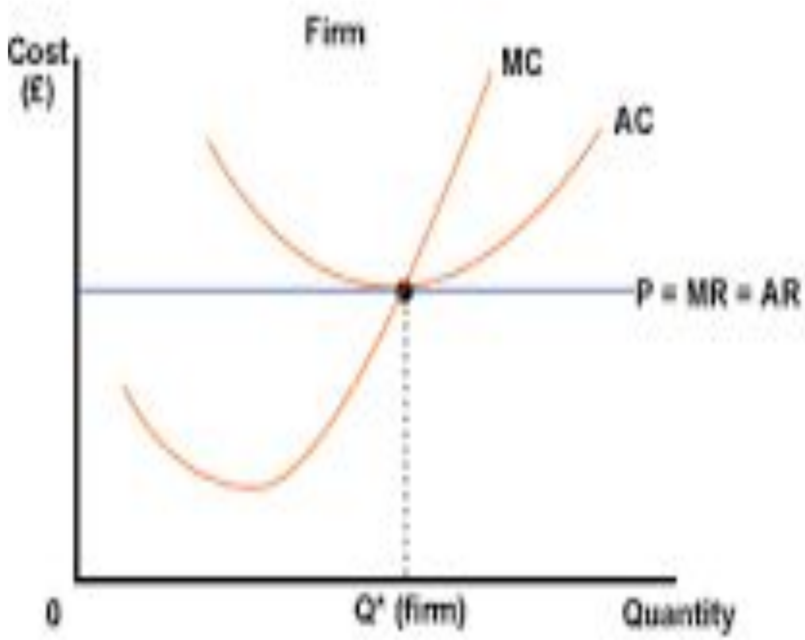


- Price is higher and output is lower under monopolistic competition

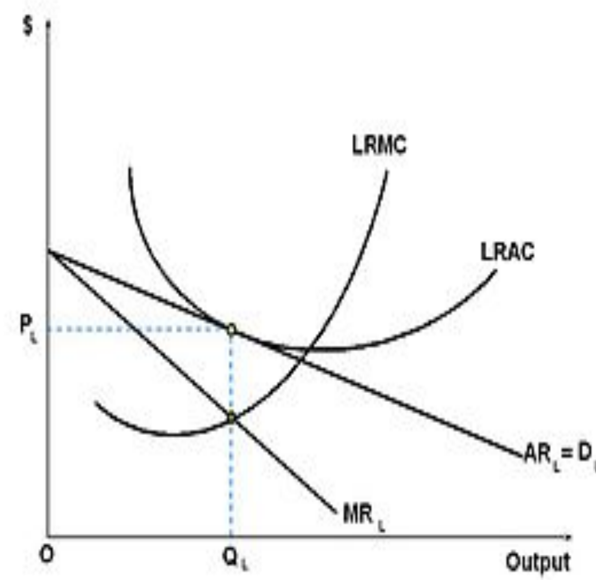


Excess Capacity in the Longrun

- Perfect Competition



- Monopolistic Competition



- As can be seen from the above diagram, the longrun equilibrium under perfect competition occurs at the lowest point of the average cost curves and so there is no excess capacity.
- However under monopolistic competition longrun equilibrium occurs before the lowest point of the average cost curve showing the existence of excess capacity. It represents inefficiency as the equilibrium occurs on the falling portion of the average cost curve.