Course Title: Microeconomics-II

Course Code: ECON4006

Course Instructor: Mr. Bidhubhusan Mishra

Topic: Equilibrium Under Monopolistic Competition

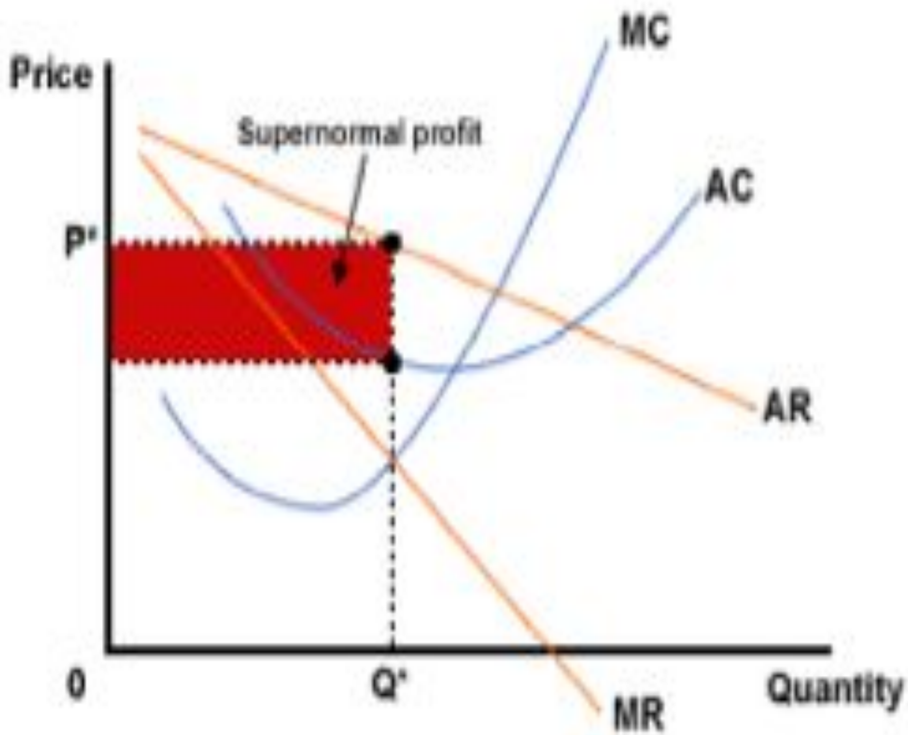
Short-run and Long-run

- The equilibrium under monopolistic competition can be divided into shortrun and longrun equilibrium.
- In the shortrun the firms may earn normal profit, supernormal profit or even make loss.
- But in the longrun they earn only normal profit because of the free entry and free exit option.

Shortrun Equilibrium

- In the shortrun the equilibrium is achieved where the marginal revenue curve intersects the marginal cost curve.
- Since in the shortrun the existing firms cannot exit the industry even if they make loss or new firms cannot enter even if the existing firms earn supernormal profits, the shortrun equilibrium may produce any of these situations.

Shortrun Equilibrium (Supernormal Profit)

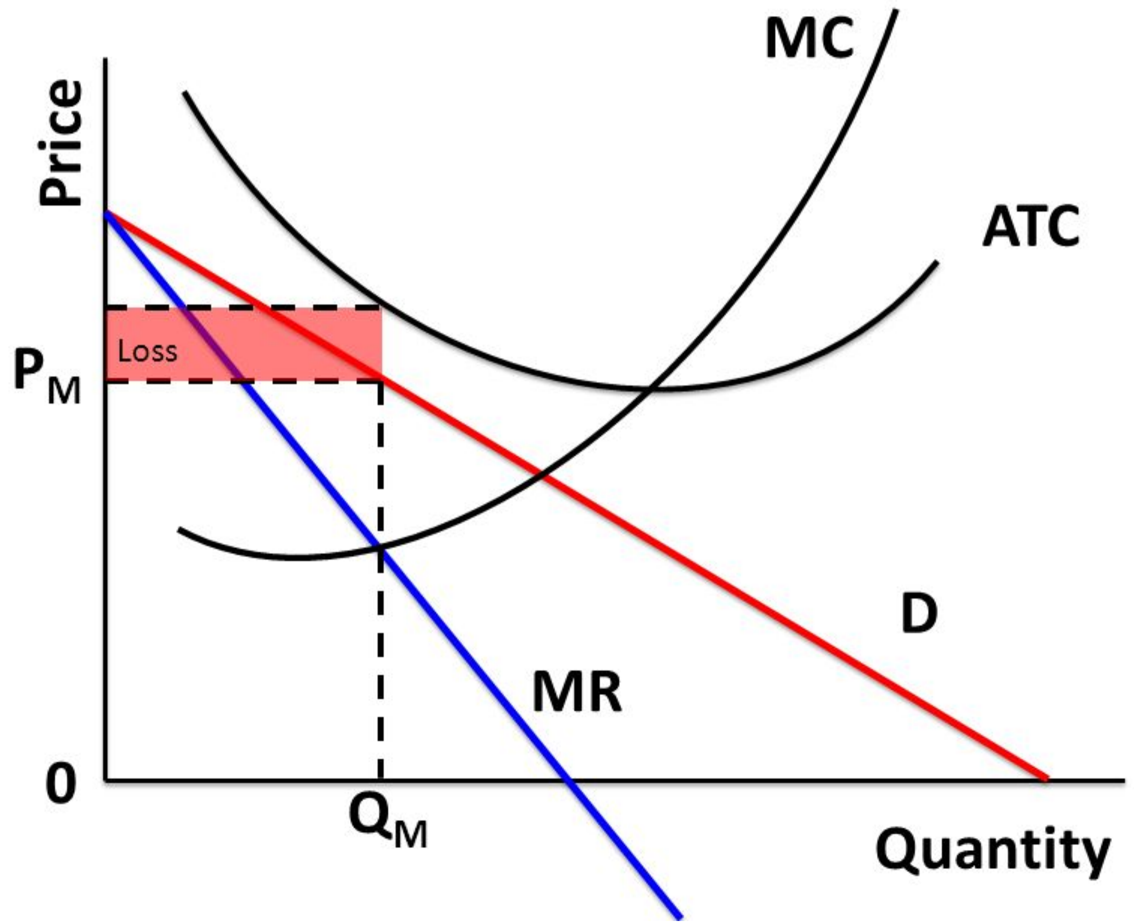


Equilibrium in monopolistic competition in the short-run

- In the above figure OP’ price and OQ’ output is determined.
- Since the average cost curve lies below the average revenue curve, the firms are earning supernormal profit.
- The red shaded area represents the supernormal profit earned by the firms.

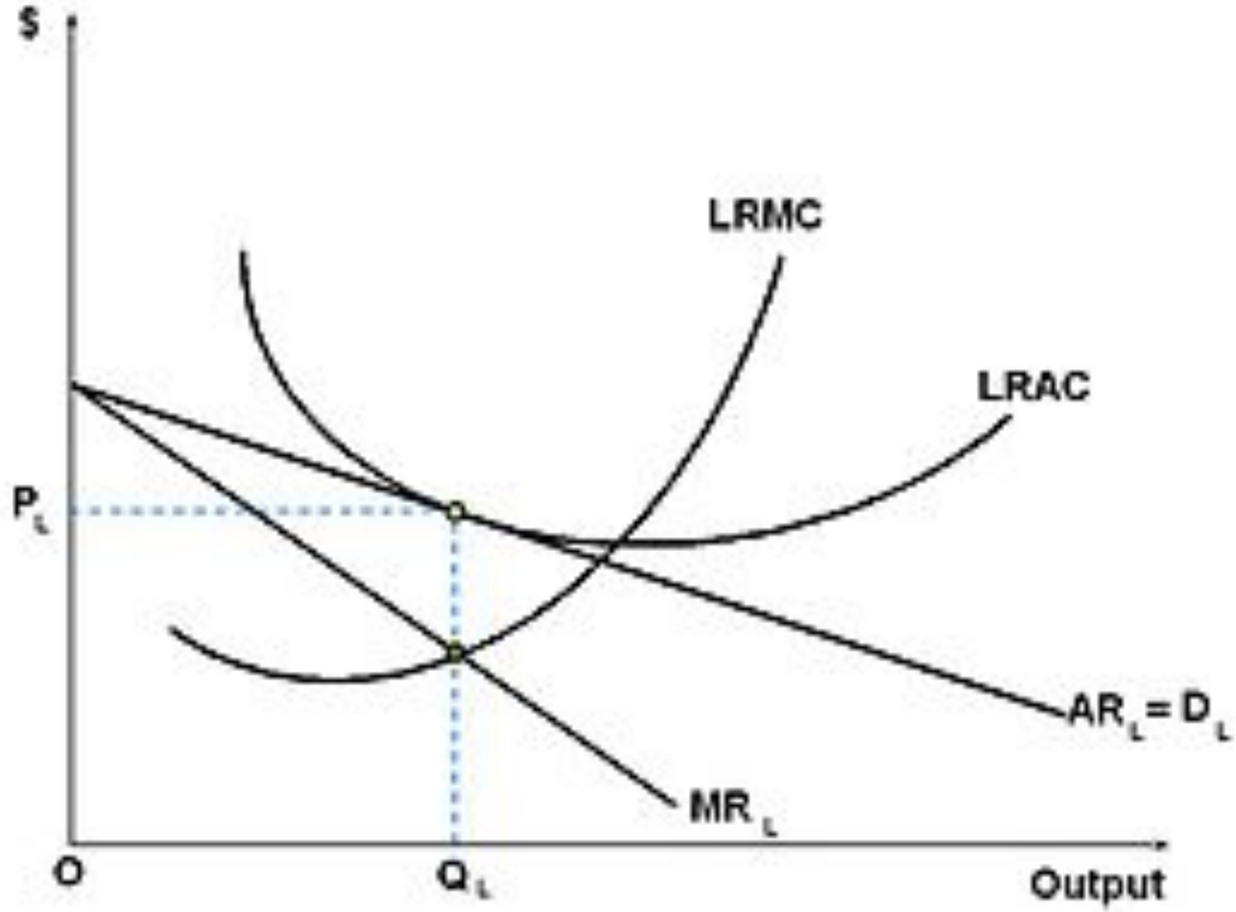
Shortrun Equilibrium (Loss)

Monopolistic competition: short-run loss.



- In the above figure OP_M price and OQ_M output is determined.
- Since the average cost curve lies above the average revenue curve, the firms are making loss.
- The red shaded area represents the loss made by the firms.

Longrun Equilibrium



- In the above figure OP_L price and OQ_L output is determined.
- Since the average cost curve is tangent to the average revenue curve, the firms are making only normal profit.
- Any supernormal profit or loss will be wiped out by entry of new firms or by exit of the existing firms.