MONOPOLISTIC COMPETITION BASICS

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BASIC CONCEPT

- Monopolistic Competition refers to the market situation in which there is a keen competition, but neither perfect nor pure, among a group of a large number of small producers or suppliers having some degree of monopoly because of the differentiation of their products. Thus, we can say that monopolistic competition (or imperfect competition) is a mixture of competition and a certain degree of monopoly, on the basis of a correct appraisal of the market situation.

FACTS OF MARKET

- Before 1933, the traditional Marshallian theory of value was prevalent
- ut in 1933 a revolution in the approach to price theory was initiated by the publication of two works of modern economists, Chamberlin and Mrs. Joan Robinson.
- E.H. Chamberlin's work was entitled "The Theory of Monopolistic Competition" and Mrs. Robinson's **"The Economics of Imperfect Competition".**
- Both economists challenged the concept of perfect competition and monopoly as unrealistic and attempted to present a new theory which is more realistic of the two new approaches, the view of Chamberlin's theory of monopolistic competition received wide acclamation. Critics also regarded Chamberlin's contribution as novel and superior to that of Mrs. Robinson's. In fact the real credit goes to Chamberlin for setting a new and realistic trend in the economics value

FEATURES OF MARKET

- **. Number of Buyers and Sellers:**
- In this market neither buyers nor sellers are too many as under perfect competition nor there is only one seller as under monopoly. Mostly, it is a situation in between. Every producer for his produced commodity has some special buyers. Every consumer and seller can influence demand and supply in the market.

OTHER FEATURES

- **2. Difference in the Quality and Shape of the Goods:**
- Although the commodities produced by different producers can serve as perfect substitutes to those produced by others, yet they are different in colour, form, packing, design, name etc. So there is product differentiation in the market.
- **3. Lack of Knowledge on the Part of Consumers:**
- Neither consumers nor sellers have full knowledge of market conditions, so there is international difference in the price of goods from those of others.
- **4. High Transportation Cost:**
- In this high transportation cost play an important role in order to create discrimination among commodities. Similar goods because of different transport costs are bought and sold at different prices
- **6. Ignorance of the Buyers:**
- There are some people who think that high priced goods will be better and of higher quality. So, they avoid buying low priced goods.

SPECIAL FEATURES OF MONOPOLISTIC CONPETITION

- **5. Advertisement:**
- Here, advertisement plays an important role because buyers are influenced to prefer by advertisement, which plays upon their mind and makes them the product of one firm to those of another. Through advertisement, they are brought to his notice through radio, television and other audio-visual aids in a more pleasing and more forceful manner. Thus, rival firms compete against each other in quantity, in facilities as well as in price.