

Monopolistic Competition and Oligopoly

In the United States, most industries have a market structure that falls somewhere between the two poles of pure competition and pure monopoly. To begin with, most real-world industries have fewer than the large number of producers required for pure competition, but more than the single producer that defines pure monopoly. In addition, most firms in most industries have both distinguishable (vs. standardized) products as well as some discretion over the prices they charge. As a result, competition often occurs on the basis of price, quality, location, service, and advertising. Finally, entry to most real-world industries ranges from easy to very difficult, but is rarely completely blocked. This chapter examines two models that more closely approximate these widespread industry structures. You will discover that monopolistic competition mixes a small amount of monopoly power with a large amount of competition. Oligopoly, in contrast, blends a large amount of monopoly power with considerable rivalry among existing firms as well as the threat of increased future competition due to foreign firms and new technologies.