

**YESHWANTRAO CHAPHEKAR  
COLLEGE, PALGHAR**

**PRESENTATION**

**ON**

**CHAPTER- 15**

**MONOPOLISTIC COMPETITION**

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# Introduction of Monopolistic competition

- ▶ We are familiar with two different forms of market - **Perfect competition and Monopoly.**
- ▶ When the market exhibits the features of both perfect competition and monopoly the market becomes monopolistic market.
- ▶ In this form of market there are many producer selling a commodity in which the producer has a monopoly market to a certain extent but at the same time has to compete with rivals who produce a close substitute.

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- ▶ Eg- A textile firm like Bombay Dyeing may acquire a monopoly market for its product due to the brand loyalty developed by the consumers. Though the firm has a certain degree of monopoly power yet the same time it must be alert and compete with its rivals.
- ▶ Such situation turns the market into Monopolistic competition as described by **Prof. Chamberlin and Prof. J. Robinson.**

# Features of Monopolistic Competition

## 1. Many Sellers –

- There are many sellers in a monopolistic market, however the number is not large enough to make the market perfectly competitive.
- A single seller is not big enough to influence the market.
- Each one may to a certain extent follow an independent policy in price and output matters without disturbing others.

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## 2. Close substitute products –

- Products sold by the sellers in monopolistic competition are close substitutes.
- Soaps and garments are examples where there are many close substitutes for any given brand of products.
- Being close substitutes the cross elasticity of demand is high.

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## 3. Product Differentiation–

- Products in monopolistic competition are differentiated. Being close substitutes it becomes essential to have an independent identity of its own.
- Products differ from each other in many ways such as colour, size, design, taste, brand name, aftersales service, etc.
- Such a distinction also leads to the development of brand loyalty on the part of the consumers.

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## 4. Selling Costs—

- Firms in this market promotes sales by incurring selling cost.
- Selling cost includes all types of selling cost incurred to promote sales.
- Eg- advertisement on T.V., hoarding, press, exhibitions ,etc.
- Selling cost tries to influence consumers demand and promote sales.

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## 5. Free Entry and Exit–

- A firm is free to enter the market i.e. to produce a product which is usually a close substitute for the existing products.
- Entry of a new firm is not restricted through government policies or through any other method.
- There are no restrictions if a firm wants to exit from the market for any reason.

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# Argument for Advertisement

## 1. Information to consumers :

- Besides the basic needs of life, people are not aware of numerous goods and services available which make life more comfortable.
- They may not be luxurious items but articles that are used in kitchens, in maintaining a house neat and clean, etc without spending much money.
- It is through advertisement, people become aware of their availability and usefulness.

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## 2. Creates Desire :

- Desire is the starting point of demand.
- Increase in demand has a multiplier effect on employment and income, through saving and investment.
- **John k. Galbraith**, an American economist in his book *Affluent Society* states that the “central function of advertising is to create desires- to bring into being wants that previously did not exist.”

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## **3. No need to have a middleman :**

- Advertisement takes the information directly to the consumer by eliminating middlemen and the extra cost involved.
- It saves time which is concerned with aspects of the commodity.

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## 4. Builds up Brand Loyalty :

- If advertisement is genuine and consumers are happy with the good because of its quality, the producer may succeed in acquiring a brand loyalty among the consumers.
- There are goods produced by Tata and Godrej companies which have committed purchasers.
- Brand loyalty help the companies to expand the market, increase production, etc.

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# Argument Against Advertisement

## 1. Temptation :

- Advertisement convinces consumers to spend money which they do not have, on something they do not need.
- In order to acquire a status in the society, by imitating the lifestyle of rich neighbours, they are tempted to purchase items like car and other luxurious goods.
- Bank also advertise easy availability of loans for such consumer durables.

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# Argument Against Advertisement

## 2. False claim :

- The objective of an advertiser is to create demand by convincing consumers that his product is superior to that of his rivals.
- Even political parties, through advertisement, make an exaggerated claim about their achievements while they are in government.

# Argument Against Advertisement

## 3. Leads to Health problems :

- Many food items including junk food are consumed as consumers are influenced by advertisements.
- Diabetes, blood pressure and other problems related to lifestyle changes are the result of falling prey to advertisements.

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# Argument Against Advertisement

## 4. Financial problem :

- Due to advertisements and easy credit facilities people induced to buy products.
- When people find it difficult to repaying loans becomes a problem, they develop stress, family problems.