

Micro Ch. 16

1. Monopolistic Competition
 - a. Two extremes
 - i. Perfect competition
 - ii. Monopoly
 - b. Between these extremes
 - i. **Monopolistic competition:** Many firms sell similar but not identical products
 1. Many sellers
 2. Product differentiation
 3. Free entry and exit
 - ii. **Oligopoly:** a few firms that offer similar or identical products
2. Advertising
 - a. The more differentiated the products, the more advertising firms buy
 - b. Critics
 - i. Society is wasting resources it devotes to advertising
 - ii. Firms manipulate peoples tastes
 - iii. Advertising impedes competition
 1. Creates perception that products are more different than they are
 - c. Defenders
 - i. Provide useful information to buyers
 - ii. Informed buyers can more easily find and exploit price difference
 1. Promotes competition
 2. Reduces market power
 - d. Eyeglasses advertising
 - i. Critics: wrong, no advertising leads to higher prices
 - ii. Defenders: right, more advertising lowers prices because it makes the market more competitive