AP MICROECONOMICS • EXERCISE SHEET

4.4 Monopolistic Competition

Name: ____________ Class: ________ Date: __________ **Total: 9 marks**

KEY WORDS differentiated 差异化 • monopolistic competition 垄断竞争 • excess capacity 过剩产能 • market power 市场势力

Objective

Build the skills to answer exam questions on **monopolistic competition**.

You must be able to:

- list the characteristics of **monopolistic competition 垄断竞争**
- determine the short-run profit-maximizing quantity using $MR = MC$
- explain the long-run equilibrium where demand is tangent to ATC and economic profit is zero
- explain why it is inefficient ($P > MC$) with **excess capacity 过剩产能**

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Characteristics

Many firms, **differentiated** products, and **free entry and exit**. Each firm has a little market power, so its demand slopes downward.

■ Short run vs long run

Short run: produce where $MR = MC$; the firm may earn profit or loss. **Long run:** entry (or exit) shifts demand until it is **tangent to ATC**, giving **zero economic profit**.

■ Inefficiency

It produces where $P > MC$ and **not** at minimum ATC, so it has **excess capacity**. Firms rely on product differentiation and advertising.

2 Practice

2.1 State two characteristics of monopolistic competition. [2]

2.2 State the long-run economic profit level. [1]

2.3 State why monopolistic competition is inefficient. [1]

3 Exam-style questions

3.1 In monopolistic competition, products are [1]

A identical
B differentiated
C free
D unavailable

3.2 In long-run equilibrium, a monopolistically competitive firm earns [1]

A economic profit
B a loss
C normal profit
D nothing at all

3.3 A café in a town with many cafés is earning short-run economic profit.

(a) State what happens to its demand as new cafés enter. [1]

(b) State its long-run economic profit. [1]

(c) Name one form of non-price competition it might use. [1]