Chapter 15

Put into practice questions

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Draw a diagram that illustrates a firm in monopolistic competition making a loss in the short run and then, following the departure of other firms, the firm making normal profits in the long run.

If firms are making a loss some will leave the industry. With less businesses the demand for any one business will increase. Demand will shift outwards until normal profit is made.

End of chapter put into practice questions

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Show the relationship between marginal revenue and the demand curve in monopolistic competition.

Marginal revenue is below demand and diverging.

Show what would happen in the long run if a business in monopolistic competition is making a loss.

Firms would leave the industry so demand for those left would increase until normal profits are made.

Imagine a firm is in long-run equilibrium in monopolistic competition. Show the effect of an increase in fixed costs.

No, effect on price and quantity but reduces profits made.

Imagine a firm is in long-run equilibrium in monopolistic competition. Show the effect of an increase in variable costs.

This will increase price and reduce output.

Imagine a firm is in long-run equilibrium in monopolistic competition. Show the effect of a fall in demand.

Businesses will make a loss and some will leave the industry until normal profits are made.

Imagine a firm is in long-run equilibrium in monopolistic competition. Show the effect of an increase in demand.

Abnormal profits are made so more firms enter the market. This reduces demand for any individual firm until normal profits are earned.

If a firm in monopolistic competition makes demand for its products more price inelastic show the effect of this on price and output.

This will increase price.

If a business becomes more successful at differentiating its products from competitors and making demand more price inelastic how does this affect the demand curve. Show this on a diagram.

This makes the demand curve steeper as demand is less sensitive to price.