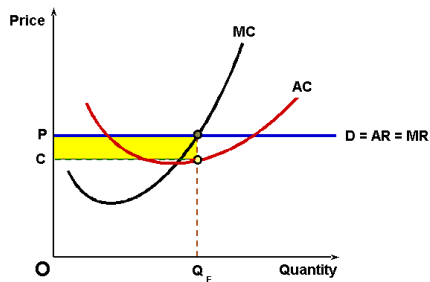


Comparing the four main market structures.

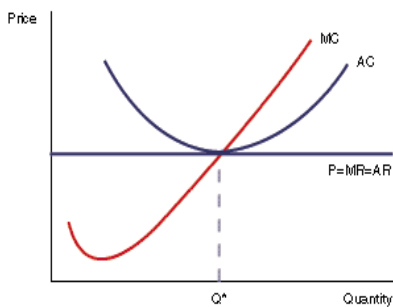
Perfect Competition

- Many Sellers/Many Buyers
- Homogenous goods
- No barriers to entry
- Perfect Information
- No advertising
- Price Taker
- $P = MR = MC$
- Can make profits in short-run
- Long-run profits equal zero
- $P = ATC \rightarrow$ Break-Even Point
- $P = AVC \rightarrow$ Shut-Down Point

Short Run Graph:
Profits > 0



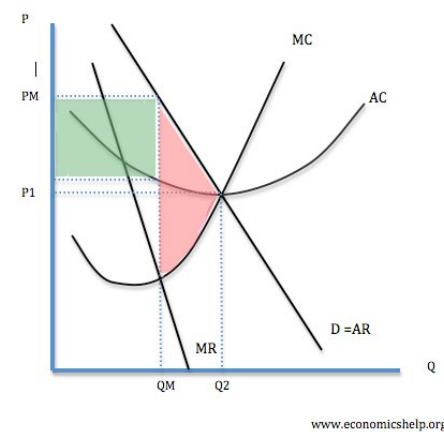
Long-run Graph:
Profits = 0



Monopoly

- One Seller/ Many Buyers
- Unique good
- Extreme barriers to entry
 - Govt (patents)
 - Location (desert)
 - Resource (DeBeers)
 - Tech. (Microsoft)
- Imperfect Information
- Little advertising
- Price Setter
- Max Profits $\rightarrow MR = MC$
- Long-run profits can be positive
- Inefficient outcome
- Results in DWL
- Can Price Discriminate

Regular Monopoly Graph

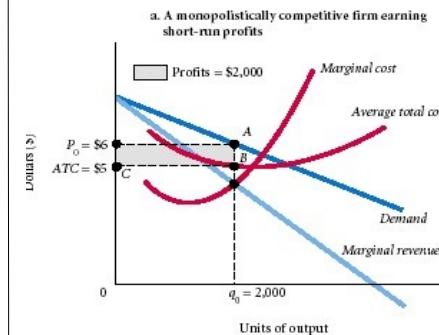


Red = DWL
Green = Profit

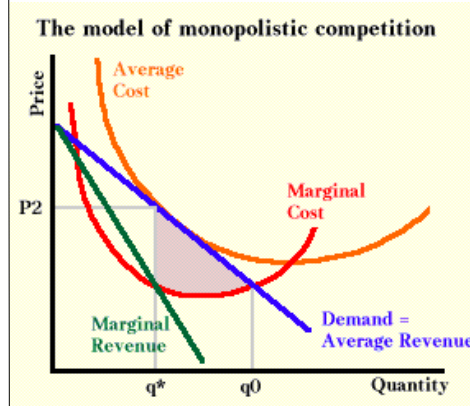
Monopolistic Competition

- Many Sellers/Many Buyers
- Differentiated Products
- No barriers to entry
- Slightly Imperfect Information
- Use advertising to shift demand
- Price Setter
- Max Profits $\rightarrow MR = MC$
- Can make profit in the short-run
- Long-run profits = 0
- Inefficient outcome
- Results in DWL

Short Run Graph:
Profits > 0



Long Run Graph
Profits = 0



Oligopoly

- Few Firms/Many Buyers
- Similar Products
- High Barriers to entry
- Slightly Imperfect Information
- Uses advertising
- Uses Game Theory to set Q or P
- Always Max Profit when $MR = MC$
- No colluding (illegal)
- No way to graph market

Types of Strategy:

- Cournot
 - q is choice variable
 - simultaneous game
 - Profits > 0
 - Profits < Monopolists profits
 - If a symmetric problem, all q 's are equal and profits are equal
 - Results in Nash Eq.
- Stackelberg
 - q is choice variable
 - sequential game
 - Profits > 0
 - Profits < Monopolists profits
 - 1st Mover Produces More and makes more profit
 - 2nd Mover produces less and makes less profit
 - Uses 'backward induction' to solve for eq.
- Bertrand
 - p is choice variable
 - simultaneous or sequential game
 - Profits $\rightarrow 0$ b/c of price war
 - P and Q end up being at perfectly competitive outcome.