

Features of Monopolistic Competition.

The main features of monopolistic competition are as

Large Number of Buyers and Sellers:

There are large number of firms but not as large as under perfect competition.

That means each firm can control its price-output policy to some extent. It is assumed that any price-output policy of a firm will not get reaction from other firms that means each firm follows the independent price policy.

If a firm reduces its price, the gains in sales will be slightly spread over many of its rivals so that the extent to which each of the rival firms suffers will be very small. Thus these rival firms will have no reason to react.

2. Free Entry and Exit of Firms:

Like perfect competition, under monopolistic competition also, the firms can enter or exit freely. The firms will enter when the existing firms are making super-normal profits. With the entry of new firms, the supply would increase which would reduce the price and hence the existing firms will be left only with normal profits. Similarly, if the existing firms are sustaining losses, some of the marginal firms will exit. It will reduce the supply due to which price would rise and the existing firms will be left only with normal profit.

3. Product Differentiation:

Another feature of the monopolistic competition is the product differentiation. Product differentiation refers to a situation when the buyers of the product differentiate the product with other. Basically, the products of different firms are not altogether different; they are slightly different from others. Although each firm producing differentiated product has the monopoly of its own product, yet he has to face the competition. This product differentiation may be real or imaginary. Real differences are like design, material used, skill etc. whereas imaginary differences are through advertising, trade mark and so on.

4. Selling Cost:

Another feature of the monopolistic competition is that every firm tries to promote its product by different types of expenditures. Advertisement is the most important constituent of the selling cost which affects demand as well as cost of the product. The main purpose of the monopolist is to earn maximum profits; therefore, he adjusts this type of expenditure accordingly.

5. Lack of Perfect Knowledge:

The buyers and sellers do not have perfect knowledge of the market. There are innumerable products each being a close substitute of the other. The buyers do not know about all these products, their qualities and prices.

Therefore, so many buyers purchase a product out of a few varieties which are offered for sale near the home. Sometimes a buyer knows about a particular commodity where it is available at low price. But he is unable to go there due to lack of time or he is too lethargic to go or he is unable to find proper conveyance. Likewise, the seller does not know the exact preference of buyers and is, therefore, unable to get advantage out of the situation.

6. Less Mobility:

Under monopolistic competition both the factors of production as well as goods and services are not perfectly mobile.

7. More Elastic Demand:

Under monopolistic competition, demand curve is more elastic. In order to sell more, the firms must reduce its price.