What is Monopolistic Competition?

Worksheet

Monopolistic competition is a market structure with many firms selling differentiated products—no single dominant firm, but each has some brand loyalty and control over price.

Questions

1. Monopolistic competition has...
A) One firm dominating
B) Many firms with differentiated products
C) Identical products everywhere
D) No competition

2. A coffee shop raises prices 10%. Customers stay. Why?
A) No other shops exist
B) Perfect competition forces identical prices
C) Brand loyalty gives them some pricing power
D) Government requires same price

3. What allows firms to charge different prices in monopolistic competition?
A) Legal monopoly
B) Product differentiation and brand loyalty
C) Perfect markets
D) No rivals

4. Entry barriers in monopolistic competition are...
A) Very high (like oligopoly)
B) None (like perfect competition)
C) Low to moderate
D) Infinite

5. Starbucks, Dunkin, Peet's, and local coffee shops all sell coffee. What market structure?

6. Restaurants compete by cuisine, location, and reputation. Are they perfectly competitive?

7. 100 wheat farmers sell identical grain at market price. Is this monopolistic competition?

8. Define: What is monopolistic competition?

9. Define: Key difference: monopolistic competition vs perfect competition?

10. Define: Example of monopolistic competition?

Answer Key

1. B) Many firms with differentiated products — Many firms, each with unique branding/quality/location to attract customers.

2. C) Brand loyalty gives them some pricing power — Differentiation (location, quality, brand) gives firms some control over price.

3. B) Product differentiation and brand loyalty — Each firm's unique brand, location, or quality allows some pricing independence.

4. C) Low to moderate — Easier to start than oligopoly but needs differentiation; less restricted than oligopoly.

5. Many firms? Yes, hundreds of coffee shops. Differentiated? Yes, each has unique branding, location, quality. Any firm dominant? No, all compete. Low barriers? Yes, can open a café anywhere. This is monopolistic competition.

6. Identical products? No — each restaurant is unique. Many firms? Yes. Some pricing power? Yes — a fancy restaurant can charge more. This is monopolistic competition, not perfect competition.

7. Differentiated products? No — all grain is the same. Many firms? Yes. Pricing power? No — all take market price. This is perfect competition, NOT monopolistic competition.

8. Many firms selling differentiated products with some pricing power due to brand loyalty.

9. Monopolistic: differentiated products & pricing power. Perfect: identical products & no pricing power.

10. Restaurants, coffee shops, clothing brands, salons — each unique but many competitors.