		Monopolistic competition	Oligopoly	Monopoly
	Allocative Efficiency (AE)	Less allocatively inefficient	More allocatively inefficient	Most allocatively inefficient
•	AE = production and consumption of goods s.t. society's welfare is	 MPC firm has price setting ability = ↓ sloping DD curve 	Allocative inefficiency worsens when firms collude	 Compare against PC industry Profit maximising monopoly
	maximised.	 Profit maximising MPC firm produces at MR = MC 	 Large scale advertising & promotional spending can be a 	produces at MR = MC
•	AE level at P = MC (the value that society places on the last	 Less AE as the P > MC: society 	waste of society's resources	 Least AE as highest BTE resulting in steepest AR curve which means
	unit of the good produced is equal to the opportunity cost)	desires more of the good to be produced.	However, oligopoly is less AE compared to MPC	P (MB) >> MC
•	All are price setters but to varying degrees due to differences in BTE.	 Underproduction and under- consumption of the good = misallocation of resources = society's welfare not being 	 High BTE = oligopolies have fewer competitors in the market. 	 More resources should be devoted to the production of the good until P=MC at output Qc. (P- MC): monopoly > oligopoly > MPC
		maximised.	 Hence, DD for oligopoly good more price inelastic = steeper AR curve 	
	Productive efficiency (PE)	Not PE from society's POV, but X- efficient	Not PE from society's POV, and most likely X-inefficient	Not PE from society's POV, and X- inefficient from firm's POV
•	PE: whether the firm is producing output using the method of production that minimizes wastage of resources	• X-efficient due to LR normal profits: Firms must produce on LRAC to avoid subnormal profits to survive in industry	 X-inefficient due to retention of LR supernormal profits (due to high BTE): ⇒ no need to produce on LRAC 	 X-inefficient due to retention of LR supernormal profits (due to significant BTE): ⇒ no need to produce on LRAC ⇒ lacks the incentive to adopt
•	Society's POV: PE occurs at LRAC minimum = firm is at its optimum size or Minimum Efficient Scale (MES).			more efficient / least costly methods of production

• Firm's POV (X-efficient): All points on the LRAC are PE (all represent lowest possible average cost of producing each given level of output)	 Productively inefficient from society's POV: ⇒ downward sloping demand curve ⇒ LR output level of a MPC firm is always less than the output level which minimises average costs ⇒ Excess capacity (Q_{PC} - Q_{MPC}) 	 More productively inefficient from society's POV: ⇒ industries that are oligopolies tend to have high overhead costs ⇒ MES is only achieved at much higher outputs 	 Most productively inefficient from society's POV: ⇒ may not even produce on LRAC much less the MES
		Evaluation : Oligopolies may not necessarily be X-inefficient. In situations with high market contestability, they have incentive to be cost efficient as well to remain in the market.	
Dynamic efficiency	High incentive, limited ability	High incentive, moderate ability	Moderate incentive, high ability
 DE: pace of innovation within a market and examines improvements in range of choice and product quality Evaluation: Look at incentive + ability to differentiate. Innovation ⇒ improvement in production techniques or development of new products ⇒ greater consumer choice and consumer surplus 	 Incentive: need to differentiate products and earn supernormal profits in the short run	 Incentive: due to existing competition and to reduce mutual interdependence Moderate Ability: LR supernormal profits ⇒ incentive to engage in substantial Research and Development (R&D) ⇒to earn greater supernormal profits 	 Incentive: Desire to maintain monopoly status which if challenged when firms outside the industry launch new substitute products High Ability: LR supernormal profits due to formidable BTE ⇒ profit accumulation that is channelled to the funding of R&D of new products ⇒to earn greater supernormal profits

<u>Equity</u>	Most Equitable	Moderately Equitable	Least Equitable
 Equity: examines if profits are spread out amongst firms and if income equality is achieved Evaluation: Fewer BTEs = more competitive firms w/ lower market share = profits spread amongst many small firms ⇒consumer surplus is maximised at the equilibrium price as P=MC 	 Profits are spread amongst many small firms. Consumer surplus less appropriated by producers due to limited price-setting ability The normal profits ensure that there will be no redistribution of income away from consumers (poor) to the firms (rich). 	 Profits in hands of few firms: made worse w/ collusion Supernormal profits are made and concentrated in hands of the few ⇒ redistribution of income away from the consumers to the producers, which is inequitable. 	 Profits concentrated in the hands of a select few firms which can block potential new entrants Income inequality exacerbated ⇒consumers end up paying high prices of limited quantity of goods
<u>Choice</u>	Most Choice	More Choice	Least Choice
	 Numerous producers and wide variety of differentiated goods 	 Fewer firms to choose from BUT firm's products are highly differentiated due to ability to carry out R&D Evaluation: Oligopolies offer more choice when products are differentiated and less homogenous in the industry Oligopolies offer more choice when there is less collusion as collusion leads to less willingness to invest in R&D or differentiate products 	 One firm to choose from + limited incentive to innovate and differentiate products ⇒ unless threat of potential entrants

Rohith | More free notes at tick.ninja