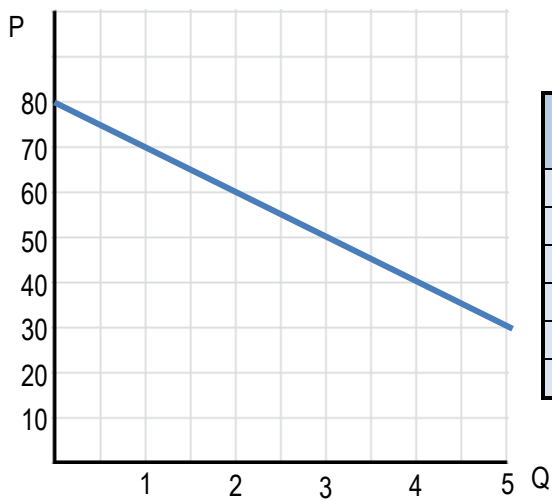


CONCEPT: MONOPOLISTIC COMPETITION REVENUE

- Firms in monopolistic competition face a _____ demand curve. A price decrease has two effects:
 - ☐ **Price effect** – The firm earns _____ revenue per unit sold because of the price decrease
 - ☐ **Output effect** – The firm earns _____ revenue because it sells more quantity at the lower price
- A monopolistically competitive firm's marginal revenue is always _____ than the price of the good

EXAMPLE: A market for cable subscriptions



Subscribers (Q)	Price (P)	Total Revenue (TR = P x Q)	Average Revenue (AR = TR/Q = P)	Marginal Revenue (MR = $\Delta TR / \Delta Q$)
0	80			
1	70			
2	60			
3	50			
4	40			
5	30			

PRACTICE: Which of the following statements is true?

- A monopolistically competitive firm's demand curve is equal to the market demand curve.
- For a monopolistically competitive firm, an increase in the quantity sold will always increase total revenue.
- The barriers to market entry in perfect competition are more stringent than those for monopolistic competition.
- A monopolistically competitive firm's marginal revenue is less than its average revenue.

PRACTICE: In monopolistic competition, firms have _____ power to set the price of its produce because _____

- No; there are no barriers to entry
- Some; of product differentiation
- No; of product differentiation
- Some; there are barriers to entry