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Research Article

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A Study on The Concept of Monopolistic Competition

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Abstract
Monopolistic competition establishes a market structure where competition between competing firms occurs due to their common but differentiated product offerings. Generally, none of these businesses enjoys monopolies, and they operate independently of one another. Notably, monopolistic competitions have the following characteristics: many firms, firms produce similar but differentiated products and are not price takers, firms have complete freedom of market entry and exit, and firms compete on price, quality, and marketing. While businesses may profit economically in the short run, they may fall short of long-term financial objectives. Additionally, market freedom may result in long-term economic profit failure. Typically, short-term economic gains can influence the establishment of new entrants, resulting in low-priced products, increased production of these products, and thus increased competition.

Keywords: Monopolistic, competition, competitive advantage.

Introduction
Monopolistic competition often eliminates economic profits, thus leading to losses in the short run after entries have ventured into a particular market. However, the freedom to exit these markets could influence high prices and eliminate economic losses. Such industries in monopolistic competition could include; hairdressing, fashion enterprises, and restaurants. Usually, profits can be maximized when the marginal revenue and marginal costs are equal. Therefore, the equilibrium output is determined by the point where the marginal revenue and costs are equal [1] . While companies in **monopolistic competition** could face long-term economic losses, they assess their output and price of products in the short run the same way companies in a monopoly do. However, these companies could produce at a level where the marginal revenues and costs are equal in the long run. However, the demand curve shifts to the left because of new entries into monopolistic markets or industries. The demand curve shift is usually caused by reduced demand concerning a company's products due to increased

competition. Therefore, when the magnitude of the entry of new players is high, existing monopolistic companies could experience reduced economic profits; hence companies can hardly sell their products at above-average costs.

Literature Review

According to MasterClass staff, monopolistic competition imposes many constraints on service providers, businesses, and the market. Typically, some companies can improve their adaptability to brand differentiation, resulting in a higher-than-average profit [2]. Additionally, new entrants may not be perceived as substitutes for the departing firms, preventing them from generating revenue. Additionally, even if there are no barriers to entry or exit from the market, monopolistic competition may erect several entry barriers for new small-to-medium-sized enterprises in the real world. According to Krylovskiy, if a company has a strong brand following and strong product differentiation, this may create barriers for new entrants, as it may be challenging to rob these companies of their brand loyalty [1]. In the long run, the assumption of normal profit may be exaggerated due to the profitability observed in monopolistic markets.

Nevertheless, because of the freedom of entry and exit in monopolistic competition, businesses may face increased competition over time even if they earn normal profits. Demand is elastic, and while firms create differentiated products, competition may be fierce, forcing smaller firms to exit the market (Corporate Finance Institute. 2021). Since then, the new trade theory has emphasized the significance of monopolistic competition models[3]. MasterClass staff reiterates that monopolistic firms must pursue product differentiation strategies to achieve product development [2]. Companies may benefit from a strong brand following and loyalty as customers enjoy new product features. However, even when countries can import and export similar goods, specialization may not be based on conventional theories of competitive advantage. For instance, the United Kingdom can import Italian fashion labels while exporting its own.

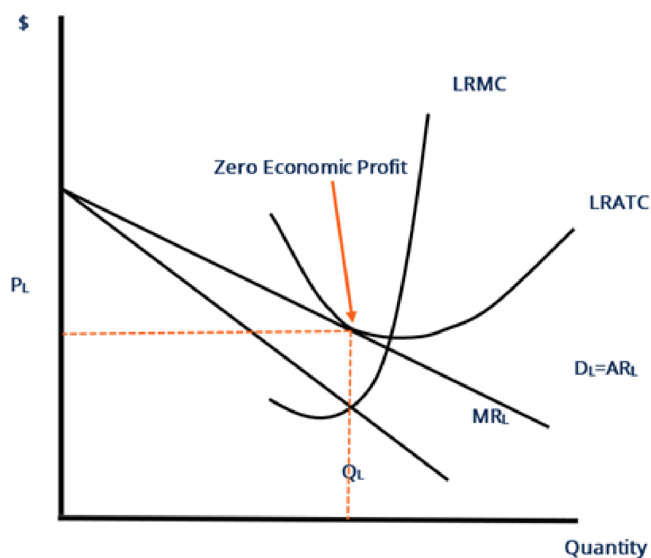
Additionally, Krylovskiy raises the question of whether monopolistically competitive firms can merge and produce a variety of distinct brands or just one [1]. MasterClass staff asserts that there are numerous possibilities for companies to merge and produce differentiated products [2]. Sakib provided evidence that the emplyees are not against organizational change though they are mostly concerned about the impacts in their indivisual lives [4]. Different companies rely heavily on their employees' behaviour. When these monopolistic organizations merge, they may face the issue of each company's behaviour [3]. Typically, when businesses merge, it's difficult to predict how they'll behave, which adds to the uncertainty surrounding these transactions. Even, it has also been observed that moral consumerism is more evident in the food and clothing sectors [5]. Similarly, there are also sectors like those which has some diversified features. However, in most industries, differentiated brands are reasonable for creating the illusion of competition while erecting a barrier to entry for other prospective businesses.

Notably, brand proliferation may act as a deterrent to new firms entering the market. For example, two companies, Proctor and Gamble and Unilever, jointly own nearly 30 brands of soap powder [1]. As a result, it may be difficult for a new entrant to compete against established brands. However, combining distinct brands may result in increased economies of scale. Typically, mergers allow for increased resource allocation and investment, improving specific products and increasing efficiency. In this regard, these mergers may increase brand awareness and loyalty, thereby increasing sales and profit margins despite the disparate behaviours of these companies.

Discussion

While merging two monopolistic entities may increase sales and profits, it may be difficult for mergers to achieve balance in specific markets, such as the food industry. For example, while it may be easy for computer engineering firms to merge and advance product development, it would be impossible for a Chinese food restaurant to merge with an Italian restaurant. In this case, providing a combination of both foods may make little to no sense. In this case, the merger would suffer a loss of customer trust, resulting in significant losses. However, certain mergers, such as those involving computer system companies, find it relatively easy to collaborate and develop their products due to the nature of their businesses [3]. Additionally, many small businesses operate under conditions of monopolistic competition. As a result, businesses such as restaurants can offer various foods and emphasize their brand's uniqueness. Even though they offer different foods, these companies compete for the same customers.

As a result, independent businesses make decisions based on the price and output of their products, customers, and manufacturing costs. Monopolistic competitors may be blind to one another's actions and may pursue divergent strategies for brand promotion and customer service. Additionally, knowledge is widely disseminated in monopolistic competition, even if it is imperfect. For example, customers may peruse various menus from various restaurants throughout the town but may not appreciate a particular diner until they have consumed the product. Additionally, the risks inherent in monopolistic markets may prompt entrepreneurs to play a significant role due to straightforward decision-making processes in perfectly competitive markets.



As previously stated, a monopolistic market allows for the entry and exit of companies. While these factors may have a long-term effect on businesses, resulting in economic losses, these businesses benefit from short-term economic gains due to normal profits. Another critical feature of monopolistic competition is the differentiation of products. Typically, product differentiation takes the form of physical development, market, and market capital differentiation. While physical product differentiation entails firms utilizing unique features, sizes, colours, and designs to differentiate their products, marketing differentiation entails firms utilizing unique packaging and other promotional strategies to increase product sales. Additionally, businesses employ human capital differentiation, in which they create distinctions in their employees' skill sets. As a result, monopolistic completion results in establishing a large number of independent businesses competing in the market.

Conclusion

Monopolistic competition is a distinct market structure in which numerous businesses compete for customers by offering similar but differentiated products. Additionally, these companies do not have a monopoly because they operate independently of one another. Several distinguishing characteristics of monopolistic competitions include the following: a large number of firms, firms that produce similar but differentiated products and are not price takers, market entry and exit freedom, and competition among firms based on price, quality, and marketing of products.

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