

Economics internal assessment

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Alison Nathanson Chapter 17 Internal Assessment [http://www.nytimes.com/2010/04/05/business/media/05screen.html? scp= 10&sq= movies&st= Search](http://www.nytimes.com/2010/04/05/business/media/05screen.html?scp=10&sq=movies&st=Search) Branding Comes Early in Filmmaking Process By STEPHANIE CLIFFORD 717 words Monopolistic Competition is a market structure in which many firms sell products that are similar but not identical. It is a mixture between monopoly, which is a firm that is the sole seller of a product without close substitutes, and perfect competition, which is a market with many buyers and sellers trading identical products so that each buyer and seller is a price taker.

The movie industry is monopolistically competitive as there are many firms competing for the same group of customers, there is product differentiation, and free entry and exit. Anyone can make a movie, yet it is the differentiations of each that allow for moviegoers to decide which ones they want to see, and therefore which ones will gross the most money. In the long run, monopolistically competitive firms have zero profit equilibrium. [pic]

If one movie is making a lot of money, more movies are put into theatres to try and even out competition, or if one company is producing a lot of movies, writers sell to other companies (new firms enter) and the demand curve shifts to the left. If no one is watching the movies, firms lose money and the demand curve shifts to the right. Due to these shifts, zero profit equilibrium occurs, as shown above, where price equals average total cost. In movies today, and always, companies have made deals with movies in order to be included in a film. This is all part of marketing, as for example; companies think that if Brad Pitt is eating a Twix in a movie, the movie watchers are more likely to buy a Twix after the movie than to buy Snickers. The author

stated that “ Now, having Campbell’s Soup or Chrysler associated with your project can be nearly as important to your pitch as signing Tom Cruise. ” Having these name brands with your movie also comes with a lot of added benefits.

The writer and director of the film “ Up in the Air” got the hotel mogul Hilton to sponsor his film for exchange of putting Hilton hotels in the movie. Thus, the movie got the added benefits from Hilton, such as the crew getting free lodging. In order to maximize profit, marginal revenue must equal marginal cost. If you look above, you can see that at this point on the graph ($MR= MC$) price exceeds marginal cost. This is because price equals average total cost, and the downward sloping demand curve makes it so that at the profit-maximizing quantity of $MR= MC$, price (atc) is greater than marginal cost.

For example, the marginal cost to the company of lodging for the crew is taken care of through Hilton, yet there are other expenses that the company must purchase as well so that the average total cost is equal to the price and zero profit equilibrium occurs. “ The cost of movies is going up, and that really drives almost everything,” said Jack Epps. In monopolistic competition, the long run always has zero profit equilibrium. So, if one firm kept the price of movies low, then their price would be below average total cost and they would have losses.

In order to have a profit, price must be above average total cost, yet in monopolistically competitive firms price equals average total cost so this is not possible in the long run. Unlike monopolies, monopolistically competitive firms do not have the ability to price discriminate, which is the business practice of selling the same good at different prices to different customers.

They must charge the same price per movie to everyone. Therefore, they all need to produce where $MR = MC$ in order to profit maximize, which actually creates zero profit equilibrium.

The author stated that “ If you want to catch an executive’s attention right now, it’s not just selling the script, but you’re showing them how to create a brand. ” Movie producers want to have a name for them, so that they will have an advantage over the many other firms out there. Due to the large number of sellers, and free entry and exit, firms that are monopolistically competitive will do anything it takes to differentiate themselves to their competition... let’s just hope the differentiation produces some good film!