Monopolistic competition essay

[Finance](), [Market]()

In the monopolistic form of market, there are a large number of sellers of a particular product and each seller sells slightly differentiated, but not identical products. The same criteria as perfect competition, applies even to monopolistic competition when determining optimal price. The marginal cost must be equal to marginal revenue and the average revenue must be greater than or equal to the average cost. However, unlike perfect competition, here product differentiation plays a major role in determining the price.

Products may be differentiated on the basis of their physical and external features or the conditions surrounding sale of the product. Since the products are similar, but not identical, the sellers have some monopoly and control over setting of the prices. In such markets pricing strategies may include the three Cs of cost, competition, and customer. Cost of course is an imperative standard for determining price. As stated earlier, price should be such that marginal cost of producing one unit of the product should be equal to the marginal revenue from the sale of that unit.

Moreover, the price should be greater than or equal to the average cost. These conditions must be fulfilled in order to ensure that the firm is earning maximum possible returns. Competition from other firms or brand names producing similar products will deter firms from resorting to indiscriminate increases in price. They will have to monitor the pricing strategies of their competitors to establish their own optimal price. The customer is perhaps the most important decisive factor here.

Since the consumer has a variety of choices, he will be indifferent to any of the several brands. The firm must create brandloyaltyamongst the consumers by offering quality at affordable prices. Advertising plays a major part here as customers are induced into purchasing products through these advertising and marketing campaigns. If the customer senses that he can get a similar or better product of another brand, for a cheaper price, he will shift to that brand. Therefore, the optimal price would be such that the customer's loyalty is maintained. Oligopoly:

Oligopoly is a market structure in which there are a few companies selling a particular product so that there is intense competition amongst them. The price determination under oligopoly is similar to that of monopolistic competition. Nonetheless, the most significant factor at play here is competition owing to the existence of only a few companies in the market. Even the slightest change in pricing strategies of one company will have an impact on the pricing policy of others. Illustration: To understand the mechanism of optimal pricing, the illustration of " Walmart", a leading departmental store, can be considered.

Walmart operates under monopolistic competition as it faces competition from such other stores as Target, Kmart, etc. Walmart always ensures that it has the least possible prices, as compared to other discount stores and this pricing strategy has helped it to establish itself in various regions of not only the United States, but also the world. Surveys conducted by Discount Store News reveal the following points about Walmart's optimal pricing strategy: Wal-Mart is especially sharp when it enters a new market as it strives to quickly establish its low price image;

2.) Other discounters are forced to be more price competitive as they seek to retain their market share, even beating Wal-Mart on selected items, and 3.

) Wal-Mart has higher prices when it doesn't face other discounters in a highly competitive situation. ” Thus, Walmart incorporates a dual-pricing policy. In order to attract the most number of customers, it ensures that its prices are lower than those of its competitors. On the other hand, it fixes a higher price for its products when not faced with excessive competition.

It sets prices bearing in mind the degree of competition and the needs of the customer more than the costs. ? References Discount Store News. 1993, June 7. Studies reveal dual pricing strategies - comparison of Wal-Mart Stores Inc. prices with other discount stores in six U. S. cities. Retrieved July 29, 2010 from http://findarticles. com/p/articles/mi_m3092/is_n11_v32/ai_13880088/?tag= content; col1. Venkatesh, R. ; Kamakura, W. (2003). Optimal Bundling and Pricing under a Monopoly: Contrasting Complements and Substitutes from Independently Valued Products. Journal of Business, 76 (2), 211-231.