Similarities and differences of perfect competition and monopolistic competition

Life

Perfect competition describes a market structure in which there is no single firm powerful or large enough to influence the price of the product. In monopolistic competition, numerous sellers differentiated products that are similar but not perfect substitutes for each other. There are some similarities that exist between these two market structures. Firstly, in both market structures, the number of firms is huge. This is especially true for perfect competition, where the number of firms in the industry is numerous.

Secondly, in both perfect competition and monopolistic competition, there are no barriers to entry. Firms are free to enter and leave the market as they see fit. Besides that, firms also have to compete with each other. However, there are more dissimilarities than similarities between these two. The first difference is the product offered. In perfect competition, the products offered are identical to those of other firms. Products are usually perfect substitutes to each other. In monopolistic competition, companies use product differentiation to set their product apart from their competition.

Some differentiation strategies include brand names, design, and advertising. A good example to demonstrate product differentiation is the smartphone market. Samsung, Apple, Sony, and HTC produce smartphones that are similar to each other in terms of functionality and quality. However, there are some small differences in features, pricing, and design that will be the deciding factor for customers when they make their purchasing decision. Secondly, there is a difference in the pricing of the products.

In perfect competition, firms are numerous and small, ensuring that no one firm has control over pricing. Thus, prices are influenced by forces such as supply and demand. In contrast, in monopolistic competition firms have some level of control over pricing due to product differentiation. Since products are not perfect substitutes for each other, it depends on the customer to decide to purchase the product at the selling price or not. For example, a t-shirt from Ralph Lauren is quite a bit more expensive than a t-shirt from GAP but there are still a lot of customers who choose to buy it.