LEGAL LOCK JOURNAL

2583-0384

VOLUME 4 || ISSUE 1

2024

This Article is brought to you for "free" and "open access" by the Legal Lock Journal. It has been accepted for inclusion in the Journal after due review.

To submit your Manuscript for Publication at Legal Lock Journal, kindly email your Manuscript at legallockjounral@gmail.com.

INNOVATION AND RIVALRY THE DRIVERS OF MONOPOLISTIC COMPETITION

Tanaya Gandhi[1]

ABSTRACT

Economists had typically viewed the economy as a combination of industries that resembled circumstances of ideal competition and enterprises that were "monopolies" prior to the Great Depression, that divide between darkness and brightness. Though the 'monopolies' varied in framework and power, it was thought that they could be insightfully analysed by a discriminating application of the hypothesis of monopoly status. The concept of competition, it was thought, provided satisfactory analysis of the competing industries. Various economists differed greatly in how much significance they assigned to these two categories of sectors, of course, but astonishingly little in the type of computational framework they believed was best appropriate for an analysis of economic events. An enduring concept of monopolistic competition in the market is the result of competitive and challenging market dynamics and scope. A fundamental problem with manufacturing under welfare economics is whether the market's proposed solution will produce the socially optimum kinds and quantities for the commodities. Monopolistic competition, as an imperfect form of competition, is unsure of its ability to meet the requirements and desires of the market's participants. This paper would deal with the holistic exposure and concept of Monopolistic competition in the 20's market domestically as well as globally. And whether it has impacted positively or negatively on the gross and national economy of the country and nation as a whole. Merits and Demerits of the concept would also be discussed and well examined through this paper. Certainly this analysis would highlight the opinions and illustrations by different stakeholders and helps one understand the amalgamated information into one manifesto. Subsequently, we decide to concentrate on the two primary methodologies that have been created to research monopolistic competition and investigate the circumstances under which both approaches provide comparable outcomes.

[1]The author is a student at Symbiosis Law School, Hyderabad.

KEY WORDS

Monopolistic Competition, Economy, Market, Equilibrium, Monopoly, Positive Competition

INTRODUCTION

Monopolistic competition occurs when a lot of businesses offer similar but inferior alternatives to one another's competing services or products. An entry barrier to a monopolistic competing sector is low, and decisions made by one company have no immediate impact on those of its competitors. The competing businesses differentiate themselves through their pricing and marketing choices. The absence of a general equilibrium model of oligopolistic competition unintentionally made the steady-state elasticity of substitution (CES) model of monopolistic competition efficient. The fundamental argument made in the current section is that monopolistic competition is a market framework in and of itself, covering a considerably wider range of circumstances than most economists realise.

In accordance with Chamberlain(1933) Monopolistic competition is described as a marketplace where a firm is allowed to determine the production (or price) that will maximise its profits (as a monopolist) but has no influence over its rivals (as in perfect competition). In essence, although being fairly relative to the sector, one firm has a dominant marketplace because it offers a unique good. To apply Triffin's (1940) definition, the cross-elasticity between any two kinds must be insignificant or each company must compete against the marketplace as a whole. As a result, economists have been debating whether Chamberlin's assumptions are logical for a very long time. We won't try to sum up this argument in any way. However, a few contributors made important points that will be covered subsequently.

It is important to consider how consumer preferences and product differentiation are modelled because this will have a significant impact on what monopolistic competition is. In a significant critique of Chamberlin's work, Kaldor (1935) challenges the notion that each firm may engage in a direct rivalry with all of its competitors. According to Kaldor, businesses have roots in particular locations. Because of this, they have nearby opponents when the others are far away. No matter how many businesses there are overall, there are few businesses vying for each one consumer, so that a decision made by any one business mostly affects its nearby competitors. Monopolistic competition wouldn't seem rational in this

situation. The argument in question is comparable to those made by Hotelling in 1929 and later by Beckmann and Salop. According to these researchers, competition is localised, which means that a firm only has a few nearby direct competitors. Building on Hotelling's insight, Lancaster (1979) advances the same notion in the setting of a characteristics realm in which items are positioned and consumers have a choice of ideal varieties, establishing an arrangement of points that are all located in the same place. A framework of spatially competitiveness with free entry has been developed as a result of these numerous literary genres. This model continues the oligopoly theory's legacy: firms behave strategically because competition is localised, and its global impacts are dispersed among enterprises via chain effects that connect any two firms in the same industry.

In this situation, businesses compete against one another as they all try to appeal to the total consumer demographic. This is why consumers who seek to consume a wide variety of products rather than their preferred variety are now referred to in Chamberlin's model of monopolistic competition.

NEED FOR THE RESEARCH

Framework of this paper is to understand the economy under monopolistic competition which is witnessed amongst big as well as small brands, firms and stakeholders across the globe. The characteristics, classification, limitations and scope and different divisional perspectives ought to provide better understanding to the reader as well as to the analyst. The said study would also help us distinguish between the concept of monopolistic competition to that of Monopoly and positive competition in the market and its implications over the economy in general. People have been misunderstanding the concept of monopolistic competition and have had invalid and biassed opinions about the same, hence this study would guide towards constructive framework of opinions and thought processes that is to be given to the concept. Also discussing its implication with the illustrations to that of the economy, specifically the Indian economy would help us locate a clear picture of the future market dynamics.

MONOPOLISTIC COMPETITION: An Understanding

Monopolistic competition, which lies between monopoly status and perfect rivalry and incorporates elements of both, consists of companies with similar but different product

offerings. Organisations in the restaurant, hair salon, home products, and clothing industries all engage in monopolistic rivalry. Products like dishwasher soap, detergents and hamburgers are sold, marketed, and priced in competition by numerous competitor enterprises.Due to the extremely flexible demand for their goods and services, these competitors frequently use pricing as a key strategy. One company may choose to reduce prices despite giving up a higher profit margin in order to boost sales. Another product might be more expensive and use labelling or advertisement that suggests a higher level of intricacy or quality. Businesses regularly use unique branding and marketing strategies to differentiate themselves from their goods. Since nearly each one of the products serve the same purpose, it is frequently difficult for the average consumer to tell the difference between them or find out what a fair price might be.

Competing businesses engage in monopolistic competition within a market structure produced by their similar but diverse product offerings. The majority of all the time, neither of these businesses have monopolies, and they operate independently of one another. In particular, monopolistic competitions have a number of distinct traits: numerous firms, Products created by non-price taker companies that are equivalent yet distinctive, complete market entry and exit freedom for companies, and competition between companies on price, quality, and marketing. While companies might make money in the short term, they might not meet their long-term financial goals. Additionally, market freedom might prevent long-term economic success. Short-term economic gains frequently influence the growth of new players, resulting in low-cost items, increased production of the aforementioned goods, and consequently increased competition.

MONOPOLISTIC COMPETITION : SPECIFICATIONS

Low Entry Barriers

Numerous companies may enter the market and compete with one another for a share of the market in monopolistic competition. This stops a single business from dominating the sector. Companies can prosper without worrying about escalating rivalry since they are not required to consider how their decisions will influence competitors.

Pricing : the imperial gravity

Prices for products and services are established by businesses in monopolistic competition. Businesses engaging in monopolistic competition can raise or lower their prices without launching a price war, which is typical in oligopolies.

Product Differentiation

The notion of "product differentiation" refers to all characteristics that set one company's product apart from another. There are two types of differentiation: actual (technical) and fictitious (non-technical).

The two types of differentiation cannot actually be distinguished from one another since they are so closely entwined. Whichever differentiation a company chooses, it anticipates that it will boost demand for products as a result. Businesses utilise the concept or fundamentals of differentiation to explain to the consumers about the amalgamation of their product's specifications and price being excessive to that of the competitors.

An organisation in monopolistic competition is not a price consumer, and the connection between the slope of its demand graph and the product value is inverse.As a consequence, it may either increase the price and turn off some customers or decrease the price to increase sales. With a decreasing slope, the demand curve is not parallel to the X-axis. Due to the close substitutability of the merchandise, excessive rivalry results in high significant cross-elasticities. The product markets of one company and those of its rivals are identical. The goods offered by a business may lose market share as a result of price decisions made by it or by its rivals. Additionally, a major factor when analysing the demand circumstances for a company's product is the selling costs.

Demand Elasticity: the deciding factor

Price elasticity of demand is a metric used to assess how consumer behaviour changes in response to price changes. Demand becomes incredibly elastic under monopolistic competition and susceptible to price changes. Buyers will switch brands for goods like laundry detergent merely because the price has gone up.

MONOPOLISTIC COMPETITION V/S PERFECT COMPETITION

In an ideal market, all vendors would provide the same items. A competitor raising its price will lose all of its market dominance to other firms, in accordance with market supply and demand factors, where values cannot be set by sellers and companies accept the pricing established through market activity.

When there is monopolistic competition, supply and demand cannot decide pricing. Considering the comparable but distinct products they sell; businesses determine their own unique prices.It is the main attribute of monopolistic competition when goods are promoted based upon their level of quality or brand. Consumers may transfer from one competitor to another in response to price changes since demand is highly elastic.

MONOPOLISTIC COMPETITION V/S MONOPOLY

Monopoly refers to a situation where one company dominates a market and may set prices for its products without having to worry about competition. Monopoly structures restrict consumer options while controlling the amount and quality of manufacturing. Businesses that operate in monopolistic rivalry are compelled to compete with one another, which restricts their capacity to raise prices substantially without reducing demand and provides customers with a wide range of product options. Monopolies are rare in free-market countries, where they are opposed by monopolistic competition.

A corporation cannot control both the costing and the further occurrence at the same time in monopolistic competition.Due to monopolistic competition, the business needs to spend a greater portion of its selling costs. The corporation merely needs to spend a small amount on selling costs when faced with a monopolistic situation, on the other end of the continuum.

BOTTOM LINE

When numerous businesses provide competitive, similar-but-not-exact, replacements for a given good or service, monopolistic competition exists. Industry examples with monopolistic competition include apparel and hair salons. In order to gain market share, price and

marketing are crucial methods for rival businesses. These tactics frequently use branding or promotional pricing.

ILLUSTRATION

A combination of how similar yet slightly different and incomparable each company's products are, the entire fast-food sector might be regarded as a monopolistic competition. Burger King and McDonald's, the two major players in this market, both sell burgers in addition to other foods. Whopper and Big Mac, the respective company's signature burgers, have each been trademarked. There is no partnership between these two companies, despite the fact that both utilise practically identical components to make burgers. It is a monopolistic competition since customers are accustomed to their different tastes and won't choose one over the other while needing both of them to live.

Similarly restaurants compete with one another in a monopolistic market, much like the fast food sector does. Being able to set pricing independently of rivals and having the freedom to enter or leave the market are two aspects that make restaurants monopolistic in nature. The experience of entering a location to consume foodstuff remains the same throughout, despite the fact that every restaurant in a town may offer a distinct product depending on the cuisine. Greek eateries may sell their goods at wildly varied price points, according to even nearby eateries. A restaurant may also have an advantage over the competition based on the quantity of patrons depending on the area.

Despite the fact that a hairstylist's location and facilities are key factors in determining its position in the marketplace, it is unquestionably the stylist's talent that distinguishes the specific salon from others. As each person has different needs for their hair, hair stylists also offer a distinctive and flexible service. The cost of a service is established in addition to the skillset by a special offering that is not available at rival businesses. A hairstylist, for example, can determine the price regardless of the rivals if they are using the most up-to-date machine in the market for hair treatments. And finally, this section has a huge persistence factor. One particular hairdresser is preferred by clients over another.

BENEFITS & EFFECTS

PROS

- **Fair & More Competition**

  Most industries are typified by monopolistic competition, thereby rendering it possible for new businesses to enter such markets without encountering any significant barriers. It is possible to register a business, run it, sell its goods or services, and turn a profit thanks to the clear laws that are in place. Some industries are exempt from regulation, and only state-owned businesses or a select few businesses will be allowed to operate there. They are typically delicate niches that are more concerned with a nation's and its citizens' overall well-being compared with the general consumer market. Competition increases when more businesses establish themselves.

- **Consumer Friendly**

If there was only one company selling a wide range of items, the customers would not have had a choice. Monopolistic competition makes it possible for many enterprises to coexist and offer similar goods—or perhaps completely different ones—that serve the same purpose. Customers or consumers can choose the product or service they'd most like as a result.

Cons

- **Perceptions: battle**

  Companies turn to advertising and other forms of communication or promotion in their battle to position a specific good or service as superior. From selling a product or service, the emphasis is now on drawing attention. The debate frequently turns on marketing and perception rather than the actual goods and services being discussed. The way a service or good is presented, rather than the actual content being provided, frequently clouds the perception war.

CONCLUSION

When there is monopolistic competition in a particular sector, multiple companies compete for customers by offering similar but different products. Due to the fact that each of these companies operates independently of the others, they do not have a monopoly. A significant number of businesses, firms that produce similar but distinguishing products and are not price takers, openness to both entering and exiting the market, and competition among firms based on price, quality, and marketing of products are just a few characteristics that set monopolistic competitions apart.