Econ 165 Stanford University
Winter 2002-03 TA: Kanda Naknoi

SECTION 3
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- **Monopoly**
  Equilibrium conditions: MR = MC
  Characteristics of the equilibrium:
  (1) P > MC (= AC, by assumption)
  (2) Q < competitive-Q
  (1) and (2) → "monopoly profit" and "dead weight loss."

- **Monopolistic competition**
  Assumptions
  (1) Technology exhibits increasing return to scale (IRTS).
  (2) Every firm has market power and become a price-setter, due to its product differentiation. (Monopolistic part)
  (3) Firms take aggregate demand and the industrial average price as given. (Competition part)
  (4) Firms are symmetric.
  Equilibrium conditions:
  (1) Firm optimality condition
  MR = MC
  (2) Zero-profit condition
  P = AC
  (1) and (2) → Number of firms is endogenous.
  An example: See Problem 1 in HW2 from last year.

- **Measure of intra-industry trade**

I = 1 – |Export –Import|/(Export + Import)

Table 1. Degree of intraindustry trade for the US, January 2002

Series	Agriculture	Mineral Fuels	Manufactures	Other goods
Exports ($millions)	4822	896	45337	1665
Imports ($millions)	3358	7589	72345	1984
EX-IM	1464	-6693	-27008	-319
Ex+IM	8180	8485	117682	3649
|EX-IM|/(EX+IM)	0.18	0.79	0.23	0.09
Intraindustry trade	0.82	0.21	0.77	0.91

Sources: The Office of Trade and Economic Analysis,
http://www.ita.doc.gov/td/industry/otea/.