

Monopolistic Competition and Effects of Advertising

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Abstract

Monopolistic competition is a type of market characterized by a large number of firms, by products which are differentiated and not seen as perfect substitutes by consumers, by some ability of sellers to set prices as they wish and to get free entry to and exit from the market and by heavy reliance on non-price actions to differentiate one's product. Small businesses in all sectors fall in this category. Starting a business is relatively easy, but staying in business is not because it requires an ability to convince customers that the product is different and better than that of competitors. Because of the importance of non-price action in this market, advertising is given special attention. Advertising can be used to promote sales of the products by giving awareness to consumers about the differentiation of the product from the others. In this paper, the nature of monopolistic competition, types and objectives of advertising, its communication and its economic and social effects will be presented.

Key words: Monopolistic competition, Non-price action, Advertising

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