**Dr. Alok Kumar

Imperfect Competition

Some of the main characteristics of Imperfect Competition are as follows:**

The concept of imperfect competition was propounded in 1933 in England by Mrs. Joan Robinson and in America by E.H. Chamberlin.

It is an important market category where the individual firms exercise their control over the price to a smaller or larger degree. Prof. Chamberlin called it “Monopolistic competition”.

Under imperfect competition, there are large number of buyers and sellers. Each seller can follow its own price-output policy. Each producer produces the differentiated product, which are close substitutes of each other. Thus, the demand curve under monopolistic competition is highly elastic.

**Characteristics:**

**1. Large number of Sellers and Buyers:**

There are large numbers of sellers in the market. All these firms are small sized. It means that each firm produces or sells such an insignificant portion of the total output or sale that it cannot influence the market price by its individual action. No firm can affect the sales of any other firm either by increasing or reducing its output; so there is no reaction from other firms. Every firm acts independently without bothering about the reactions of its rivals. There are a large number of buyers and none of them can affect price by his individual action.

**2. Product Differentiation:**

Another important characteristic is product differentiation. The product of each seller may be similar to, but not identical with the product of other sellers in the industry. For example, a packet of Verka butter may be similar in kind to another packet of Vita butter, but because of the idea that there are differences, real or imaginary, in the quality of these two products, each buyer may have a definite preference for the one rather than for the other. As a result, each firm will have a group of buyers who prefer, for one reason or another, the product of that particular firm.

**3. Selling Costs:**

Another important characteristic of the monopolistic competition is existence of selling costs. Since there is product differentiation and products are close substitutes, selling costs are important to persuade buyers to change their preferences, so as to raise their demand for a given article. Under monopolistic competition, advertisement is not only persuasive but also informatory because a large number of firms are operating in the market and buyer’s knowledge about the market is not perfect.

**4. Free Entry and exit of Firms:**

Firms under monopolistic competition are free to join and leave the industry at any time they like to. The implication of this characteristic is that by entering freely into the market, the firms can produce close substitutes and increase the supply of commodity in the market. Similarly, the firm commands such a meager amount of resources that in the event of losses, they may easily quit the market.

#### 5. Price-makers:

In the monopolistic competitive market, each firm is a price-maker as it can determine the price of its own brand of the product.

#### 6. Blend of Competition and Monopoly:

In this market, each firm has a monopoly power over its product as it would not lose all customers if it raises the price as its product is not perfect substitute of other brands. At the same time, there is an element of competition because the consumers treat the different firms’ products as close substitutes. Hence, if a firm raises the price of its brand, it would lose some customers to other brands.