downward sloping demand curve, as do all firms in imperfect competition. At any given price, the demand curve for the monopolistically competitive firm may be more elastic than that for the monopolist, given the larger number of substitutes. The monopolistically competitive firm produces the profit-maximizing level of output, where marginal revenue equals marginal cost, and charges the price read off the demand curve. The firm typically earns positive economic profits \((P > ATC)\) in the short run because factors such as product differentiation and geographic location give the firm market power. This is the monopolistic aspect of this model.

Given that entry is relatively easy in the long run, the short-run positive economic profits in Figure 8.4a cannot be sustained. Other firms will begin to produce the same or similar products. This will cause the demand curve in Figure 8.4a to shift back in toward the origin and become more elastic as other firms absorb some of the demand previously faced by this firm. The demand curve will shift back until it is tangent to the average total cost curve, resulting in zero economic profit. This position of long-run equilibrium is shown in Figure 8.4b. The firm earns zero economic profit \((P = ATC)\) at the profit-maximizing level of output \((MR = MC)\). Although this result is a "competitive" type of outcome due to entry into the product group, the equality of price and average total cost does not occur at the minimum point of the average total cost curve, as it does in the model of perfect competition. Monopolistically competitive firms do not have an incentive to produce at the lowest point of their average total cost curve. Because the monopolistically competitive firm has market power and faces a downward sloping demand curve, it also produces where price is greater than marginal cost. This result is different from the perfectly competitive outcome, where price equals marginal cost.

Any positive economic profits tend to disappear relatively quickly for a monopolistically competitive firm, given the lack of substantial barriers to entry. Managers in these firms must continually search for strategies, including product differentiation, market niches, geographic location, and advertising, that can give them at least temporary market power. The monopolistically competitive firm, unlike the perfectly competitive firm, does have an incentive to advertise.