

An Insight on Joan Robinson's Theory of Imperfect Competition

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The contributions of Joan Robinson (1903 – 1983) to the field of economics, particularly her development of the theory of imperfect competition, have been very useful in shaping modern economic thought. In her work "The Economics of Imperfect Competition", Robinson illustrates a more complex picture of how actual markets work. This paper discusses the core principles of Robinson's theory and its economic implications.

Imperfect competition and monopolistic competition

Robinson's theory of imperfect competition is built on the idea of monopolistic competition—where companies create comparable but not exactly identical goods that allow them to influence prices without losing all of their clients. (Robinson, 1933).

Product Differentiation and Market Power

Companies compete not only on cost but also on product qualities, brand recognition, customer service, and design that fosters brand loyalty. Companies can keep better prices and make short-term profits. Nonetheless, the simplicity of entrance and exit in the market guarantees that, over time, companies make normal profits as new competitors reduce these profits by providing comparable unique products (Robinson, 1933).

Economic Implications

Pricing and Output Decisions

In an imperfectly competitive market, firms decide their output and pricing where marginal cost (MC) equals marginal revenue (MR). But due to product differentiation, a company is unable to have a total control of the market. Hence, companies produce at a level where they have excess capacity - they do not produce at the least point of their average cost curve, thereby creating inefficiencies relative to perfect competition (Chamberlin, 1933).

Welfare and Efficiency

Robinson's analysis highlights the welfare implications of imperfect competition. Companies set prices above marginal cost because they have market power, which results in inefficient allocation of resources thus driving economic inefficiencies. On the other hand, product differentiation can improve customer satisfaction potentially offsetting some of the inefficiencies (Robinson, 1933; Chamberlin, 1933).

Criticisms and Extensions

Robinson's concept drew criticisms from subsequent economists. One criticism is that it does not adequately address the dynamics of entry and exit in the market. In reality, the threat of potential competition limits the market power of existing firms, a concept later developed in the theory of contestable markets. Robinson's model assumes that firms compete primarily on product differentiation, but real-world markets often involve strategic interactions, such as price leadership and collusion, which are better captured by game theory and oligopoly models (Stigler, 1957).

Joan Robinson's contributions to the understanding of imperfect competition have provided a more realistic framework for analysing market structures where firms have some degree of pricing power. While her theory has evolved and faced criticisms, it remains a cornerstone of industrial organization and microeconomic theory, offering valuable insights into the functioning of modern economies.

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References

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