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Research in economics and monopolistic competition

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This Special Issue of *Research in Economics* is dedicated to the theory of monopolistic competition to celebrate the 40th anniversary of the seminal article by Avinash Dixit and Joseph Stiglitz. As clearly argued by Paul Krugman in his brilliant Forward on “Avinash and Joe’s Excellent Engine”, the work of Dixit and Stiglitz (1977) has been one of the most influential theoretical contributions of modern economics. It formalized the idea, introduced by Edward Chamberlin more than forty years earlier (Chamberlin, 1933), of a competition between many small firms with market power over differentiated goods, whose entry can be constrained by fixed set up costs. Deep down, this is just how most real markets work.

In the last forty years, the model has been at the basis of most research on international trade (since Krugman, 1980), growth (since Romer, 1987) and macroeconomics (since Blanchard and Kiyotaki, 1987) that went beyond the ideal of perfect competition and took seriously the role of markups, entry and innovation in affecting market structures and the aggregate economy.¹ The key ingredients of the success of the Dixit-Stiglitz model were a demand system derived from utility maximization by a representative agent and an endogenous number of products determined by a zero profit constraint. These elements facilitated applications in microfounded general equilibrium theory and made it possible to measure changes in welfare through changes in the number of varieties provided and in the equilibrium prices. The analysis of the gains from opening up to trade, of growth through the development of new goods and of the propagation of aggregate shocks under sticky prices were the natural consequence of the Dixit-Stiglitz revolution.

We have asked Avinash Dixit to frame this issue, and his note on “The past and future of monopolistic competition modeling” is a nice road map on the recent revival of interest in the theory and on the path for the future applications. It also adds a novel and wise perspective on what economic theory is (or should be) about. Most of the subsequent articles of this issue present extensions of the original Dixit-Stiglitz model, focusing on generalizations

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¹ An interesting precursor of the analysis of monopolistic competition in a dynamic setting is Judd (1985).

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