

Product Differentiation and Alfred Marshall

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A. Marshall asserted that effects of increasing returns gained from the internal economies are larger than those of decreasing costs resulting from the external economies. On the other hand, Piero Sraffa placed emphasis on the consumers' preference as a factor that makes internal economies compatible with free competition. Sraffa thought that a firm had to bear the selling cost in order to penetrate into a particular market with specific consumers' preference for products by other competing firms. Then, didn't Marshall know about consumers' preference, a particular market and the selling cost? Yes, he knew about them.

Marshall asserted that if an individual producer could produce and sell a large quantity of homogeneous goods, that is, marketing his goods was not very difficult, he might attain something like a perfect monopoly or a limited monopoly. This means that a perfect monopoly cannot be formed in a differentiated market, but only an oligopoly can be formed. On the other, if marketing his goods is very difficult, a perfect monopoly cannot be formed. But I think that if he gradually expends some money and time to sell his goods, he may attain an oligopoly in a general market composed of many particular markets.

When a particular market is formed by consumers' preference—preferences among similar products—or patronage, producers may have to pay a heavier cost for marketing goods bearing his name and/or trade mark. His name and/or trade-mark are factors of product differentiation as Marshall refers to in his "Principles of Economics" and "Industry and Trade". I think that he referred to those factors because there existed product differentiation to some extent in Marshall's age from 1870 to 1920, although, product differentiation can be recognized less clearly in England than the U.S.

Historically speaking, factors of product differentiation was first recognized by A. Marshall, by A. W. Shaw in 1910s, by P. Sraffa in 1920s, and later by E. H. Chamberlin and J. Robinson. Chamberlin and Robinson developed the

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theory of imperfect competition in 1930s.