

Exam 5 Notes

11/24/2014

□ 11/24/14

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□ 25 questions word for word from first 4 exams

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□ Monopoly

- Any firm—not just a monopoly—that faces a downward sloping demand curve will have SOME amount of market power
- Market power causes “harm” when the good is a necessity with few/no substitutes
- Price gouging for gasoline

□ Market power

- Government intervention is not justified in every case that involves market power
 - Abuse of market power
 - Undue market power
 - Exorbitant market power
- Mergers...
 - Two firms merging reduces number of substitutes
 - Number of substitutes determines elasticity
 - Elasticity determined market power
 - Market power represents price higher than competitive level

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□ Two Types of Mergers

- Horizontal merger: two firms in the same market/industry competing with each other
 - AT&T and T-Mobile
 - Time Warner and Comcast
- Vertical merger: two firms in different states of production of the good
 - Comcast and NBC/Universal

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□ Who Looks at Mergers

- Department of Justice
- Federal Trade Commission
- In some cases other government entities:
 - Federal Communicators Commission
 - Federal Energy Regulatory Commission
 - State public service commissions

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□ Mergers Create Efficiencies—Lower Costs (pg. 296)

- Fixed costs spread over larger output produces economies of scale
- Elimination of duplicate functions (overhead functions)
- Will these efficiencies be passed on to customers?

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□ Merger Guidelines

□ Measures of Industry Concentration

- Four firms concentration ratio: percent of the market accounted for by the top four firms
 - Usually measured in dollars or sales
- Herfindahl Index: measures market concentration
 - Each firm's market share is squared...
 - Then all forms are added together
 - < 2500 is an "unconcentrated industry"
- generally accepted the greater the.....

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□ Herfindahl Index and Merger Guidelines (pg. 497-498)

- Herfindahl indices used to determine whether the government will approve mergers....

- If Herfindahl Index is <1500 , the merger will not be challenged
- If Herfindahl Index between 1500 and 2500, if merger increases HH index by > 100 merger.....

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□ Anti-Trust

- Entire field of law and economics looking at:
 - Are firms operating as monopolies and are consumers harmed by this?
 - Microsoft
 - Google
 - AT&T
 - Kodak

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□ Natural Monopoly

- Two water companies would be wasteful & inefficient
- One company can serve entire market cheaply than two could
- Government steps in, grants license to.....

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□ Regulating a Natural Monopoly (pg.498)

- Regulated price where $P = ATC$
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