

- April 21
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- Any firm- not just a monopoly- that faces downward has some market power
- Price gouging for gasoline
 - Some states are illegal to price gouge'
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- Market power
 - Govt intervention is not justified in every case that involves market power
 - Abuse of market power
 - Undue market power
 - Exorbitant market power
 - Mergers...
 - Horizontal merger
 - 2 firms in the same market or industry
 - vertical merger
 - 2 firms in different stages of production of the good
- who looks at mergers
 - department of justice
 - federal trade commission
 - in some cases other government entities

- o federal communications commission
 - o federal energy regulatory commission
 - o state public service commissions
- is this merger in the public interest?
- Mergers create efficiencies- lower costs
 - Fixed costs spread over larger output produces economies of scale
 - Elimination of duplicate functions (overhead functions)
 - Will these efficiencies be passed onto customers
 - o Page 505 for profit graph
- Merger guidelines
 - Does/would the merger significantly harm or reduce competition
- Measures of industry concentration
 - Four firm concentration ratio
 - o Percent of the market accounted by the top 4 firms
 - o Usually measured in dollars or sales
 - Herfindahl index
 - o Measures market concentration
 - o Each firms market share is squared
 - o Then all firms are added together
 - If it is less than 1500 then it is considered unconcentrated
 - If it larger than 2500 then it is highly concentrated, and the merger is looked at closely and possibly denied

- The mismatch
 - Generally accepted that greater industry concentration equals less competition but this is not true
- Which is a better measure?
 - Herfindahl index
- Herfindahl index and merger guidelines
 - Indices used to determine whether the government will approve mergers
 - If the merger increases HH index by >100 points merger it may be challenged
 - It will be challenged if it goes up by 200
 - Page 506
- Anti trust
 - Entire field of law and economics looking at
 - Are firms operating as monopolies and are consumers being harmed by this?
- And now we move on...
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- Oligopoly
 - A small number of firms
 - 2-12
 - 2 firms is a duopoly
 - difficult to enter the market as a seller
 - satellite tv
 - delivery service