## Key Concepts and Summary

### 11.1 Corporate Mergers

A corporate merger involves two private firms joining together. An acquisition refers to one firm buying another firm. In either case, two formerly independent firms become one firm. Antitrust laws seek to ensure active competition in markets, sometimes by preventing large firms from forming through mergers and acquisitions, sometimes by regulating business practices that might restrict competition, and sometimes by breaking up large firms into smaller competitors.

A four-firm concentration ratio is one way of measuring the extent of competition in a market. We calculate it by adding the market shares—that is, the percentage of total sales—of the four largest firms in the market. A Herfindahl-Hirschman Index (HHI) is another way of measuring the extent of competition in a market. We calculate it by taking the market shares of all firms in the market, squaring them, and then summing the total.

The forces of globalization and new communications and information technology have increased the level of competition that many firms face by increasing the amount of competition from other regions and countries.

### 11.2 Regulating Anticompetitive Behavior

Antitrust firms block authorities from openly colluding to form a cartel that will reduce output and raise prices. Companies sometimes attempt to find other ways around these restrictions and, consequently, many antitrust cases involve restrictive practices that can reduce competition in certain circumstances, like tie-in sales, bundling, and predatory pricing.

### 11.3 Regulating Natural Monopolies

In the case of a natural monopoly, market competition will not work well and so, rather than allowing an unregulated monopoly to raise price and reduce output, the government may wish to regulate price and/or output. Common examples of regulation are public utilities, the regulated firms that often provide electricity and water service.

Cost-plus regulation refers to government regulating a firm which sets the price that a firm can charge over a period of time by looking at the firm’s accounting costs and then adding a normal rate of profit. Price cap regulation refers to government regulation of a firm where the government sets a price level several years in advance. In this case, the firm can either earn high profits if it manages to produce at lower costs or sell a higher quantity than expected or suffer low profits or losses if costs are high or it sells less than expected.

### 11.4 The Great Deregulation Experiment

The U.S. economy experienced a wave of deregulation in the late 1970s and early 1980s, when the government eliminated a number of regulations that had set prices and quantities produced in a number of industries. Major accounting scandals in the early 2000s and, more recently, the Great Recession have spurred new regulation to prevent similar occurrences in the future. Regulatory capture occurs when the regulated industries end up having a strong influence over what regulations exist.