

Determining Industry Structure

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the four-firm concentration ratio.

The higher the ratio, the closer to an
oligopolistic or monopolistic type of market
structure

A ratio of 40% or more means that an oligopoly exists because power is concentrated in a few firms in the industry





















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individual **market shares** of **all** firms in the industry

The Herfindahl index gives higher weights (than those given by the concentration ratio) to the largest firms in the industry because it squares market shares.

Used by the Department of Justice to determine whether a merger is allowed to take place: Less than 1,000 is considered competitive and the merger is allowed

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The Herfindahl-Hirschman Index

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Firm	Share of the market
A	50%
B	25%
C	4%
D	4%
E	4%
F	4%
G	4%
H	4%
I	1%