

Determining Industry Structure

Economists use one of two methods to measure industry structure:























2









R

2







The value of sales by the top n firms of an industry as a percentage of total industry sales.

The most commonly used concentration ratio is
the four-firm concentration ratio.

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





















2













S





nm

2













Is calculated by adding the **squared** value of the
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

The Concentration Ratio

The Herfindahl-Hirschman Index

Determining Industry Structure

Economists use one of two methods to measure industry structure:

The Concentration Ratio

The value of sales by **the top n firms** of an industry as a percentage of total industry sales.

The most commonly used concentration ratio is the **four-firm** concentration ratio.

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

The Herfindahl–Hirschman Index

Is calculated by adding the **squared** value of the 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

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