

CONCEPT: MERGERS AND THE HERFINDAHL-HIRSCHMAN INDEX (HHI)

- Business **mergers** result from two or more firms becoming one firm.
 - **Horizontal Mergers** – A merger between firms in the same industry
 - Example: T-Mobile and AT&T
 - **Vertical Mergers** – A merger between firms at different stages of production of a good
 - Example: eBay buying PayPal
- The **Herfindahl-Hirschman Index (HHI)** helps gauge the level of concentration in an industry

$$HHI = (Firm\ A\ Market\ Share)^2 + (Firm\ B\ Market\ Share)^2 + \dots + (Firm\ X\ Market\ Share)^2$$

$$Firm's\ Market\ Share = \frac{Firm's\ Revenue}{Industry\ Total\ Revenue} * 100$$

Merger Standards

- HHI below 1,500: Market is not concentrated
- HHI between 1,500 and 2,500: Market moderately concentrated
- HHI above 2,500: Market is highly concentrated

PRACTICE: Calculate HHI in the following industries:

- One firm with 100% market share
- Two firms with 50% market share
- Four firms with market shares of 30%, 30%, 20%, and 20%
- Ten firms with 10% market share

PRACTICE: Information related to the market for monkeys smoking a cigar is summarized below:

Supplier	Quantity Supplied	Total Revenue
Top Notch Monkeys	400	\$52,000
Mr. Monkey's Monkeys	65	\$8,000
Discount Monkeys	850	\$30,000
(Five other suppliers with equal supply/revenue)	20	\$2,000

The HHI for this industry is:

- a) 2,704
- b) 4,439
- c) 100,000
- d) 3,688

The monkey smoking a cigar industry is:

- a) Not concentrated
- b) Moderately concentrated
- c) Highly concentrated
- d) Not enough information

PRACTICE: An industry is made up of the following four firms with their respective market shares.

Supplier	Market Share
Firm 1	40%
Firm 2	30%
Firm 3	20%
Firm 4	10%

The HHI for this industry is:

- a) 100
- b) 1,000
- c) 1,600
- d) 3,000