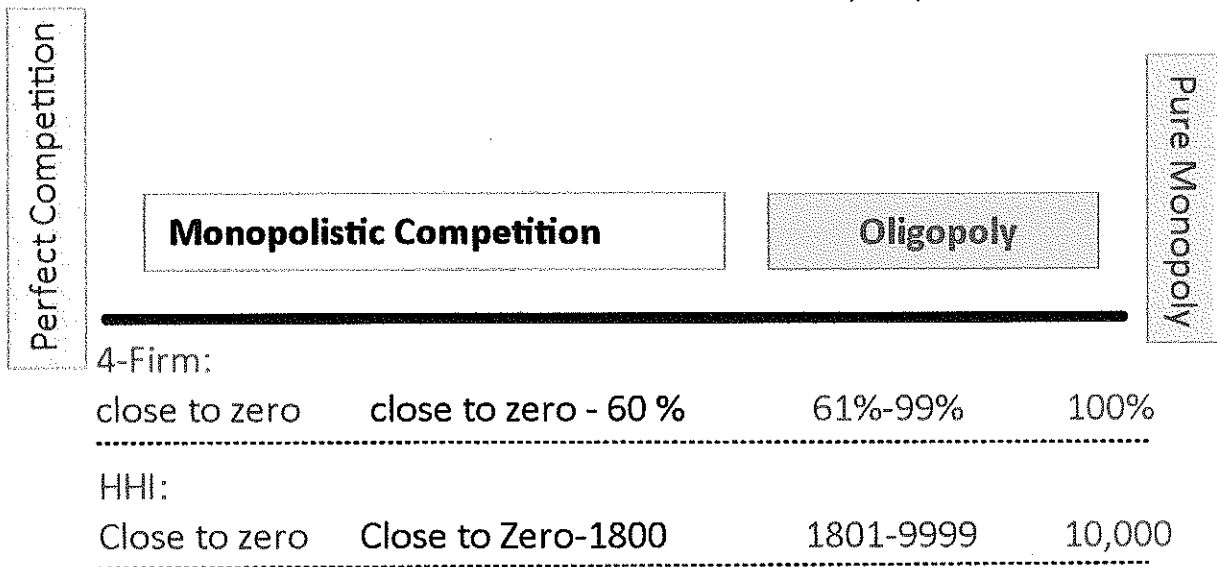


# Measuring Market Structure

*How do we know what market structure a particular industry is?*

Two ways to measure:

1. Four-Firm Concentration Ratio
2. Herfindahl-Hirschman Index (HHI)



Firm	Sales (Dollars)	
The White Phial	400	8.9 % of the Market
Braidwood Inn	325	7.2 % of the market
The Winking Skeever	300	6.7 % of the market
The Ragged Flaggon	280	6.2 % of the market
Warmaidens	150	
Next 15 Firms	100 each	
Next 30 firms	50 each	
Total Market Size	4455	

$$8.9 + 7.2 + 6.7 + 6.2 = 29 \%$$

*The top 4 firms  
combined  
are 29% of the entire  
market*

This is a  
Monopolisticly  
Competitive  
Market

### 4-Firm Concentration Ratio

1. Find top 4 firms
2. Find % market share each
3. Add percents
4. Close to 1, close to 1-60%, 61-99%, 100%

Firm	Sales (Dollars)	
The White Phial	400	8.9 % of the Market
Braidwood Inn	325	7.2 % of the market
The Winking Skeever	300	6.7 % of the market
The Ragged Flaggon	280	6.2 % of the market
Warmaidens	150	3.3 % of the market
Next 15 Firms	100 each	2.2 % of the market <u>each</u>
Next 30 firms	50 each	1.67 % of the market <u>each</u>
Total Market Size	4455	

### Herfindah-Hirshman Index (HHI)

1. Find top 50 firms
2. Calculate % market share for each
3. Square percent of each
4. Sum squared percents
5. close to 1, close to 1-1800, 1801-9999, 10,000

$$\begin{array}{r}
 8.9^2 = 79.21 \\
 7.2^2 = 51.84 \\
 6.7^2 = 44.89 \\
 6.2^2 = 38.44 \\
 3.3^2 = 10.89 \\
 2.2^2 = 4.84 \times 15 = 72.6 \\
 1.67^2 = 2.79 \times 30 = 83.7 \\
 \hline
 \mathbf{381.57}
 \end{array}$$

This is a  
Monopolisticly  
Competitive  
 Market