





## Features of Non-competitors

- Number of firms present in the market = a few (associative oligopolies & cartels) to one (natural monopoly)
- Number of consumers present in the market = a lot
- Business/operations share relative to the market = important
- Ability to impose a price on consumers = yes; the firm is a price maker
- Barriers to enter the market = large capital investments
- Product knowledge = imperfect – branded choices

- Degree of product differentiation = limited
- Degree of product substitution = perfect since the products are similar
- Degree of state intervention = important – fines for collusion
- Examples: colas, news agencies, cement, fast food, oil producers, various associations (hotel)
- Competitive element: absent – there is no need for competition since just a few firms dominate the market (non-competitive behavior)

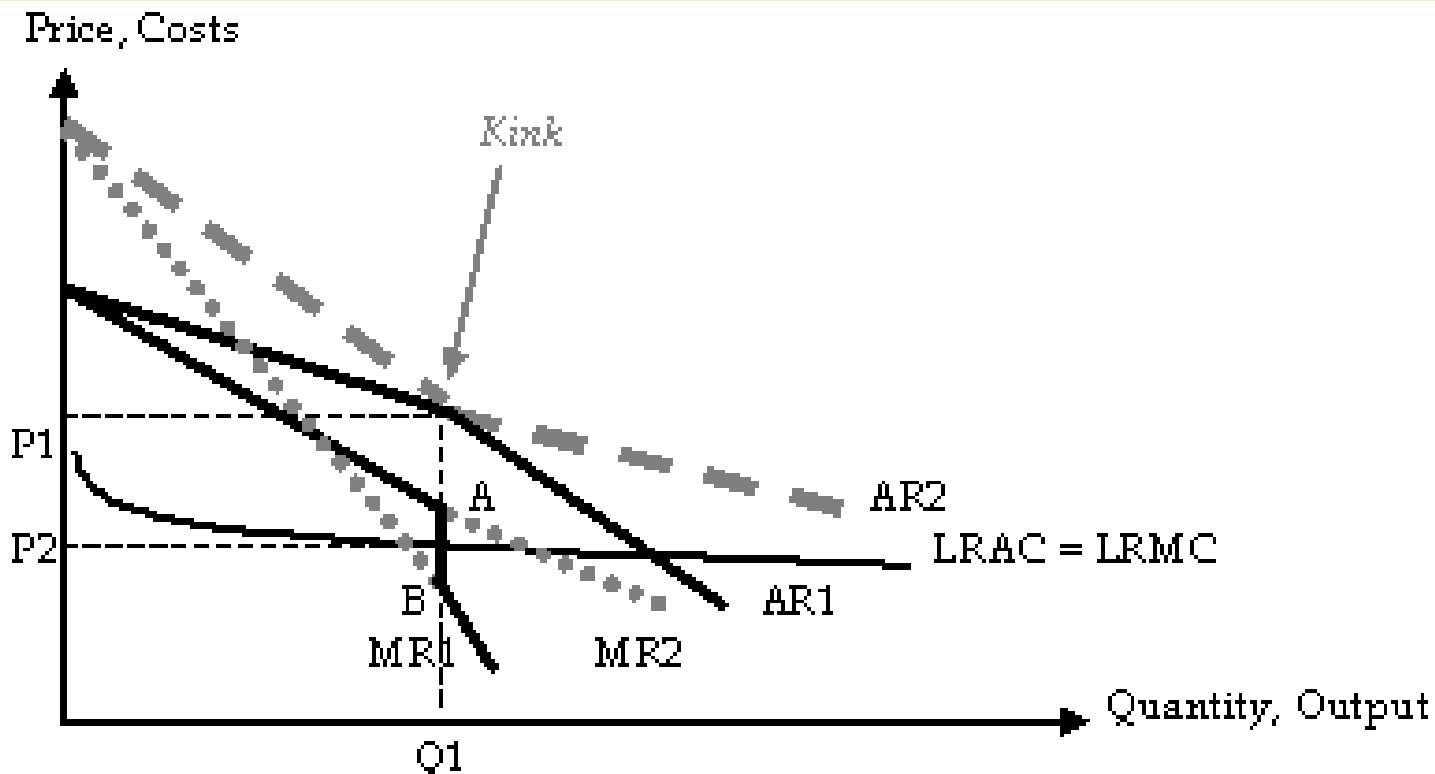
## Cost and Revenue Analysis

---

Assuming two non-competitors A and B, the former has demand curve AR1 and the latter AR2. Via an explicit or tacit agreement the two businesses will share the market and the resulting demand curve is a kinked curve.

At the same time both businesses will (expressly or tacitly) agree on one and the same price that yields above normal profits.

To maximize profits the condition  $MC = MR$  must hold. Yet, given the kinked AR curve, the MR for both firms is constructed as a discontinuity AB between MR1 and MR2.



The prisoners' dilemma matrix shows the benefits of collusion typical of associative oligopolies such as professional associations:

	A-CONFESS	A-DENY
B-CONFESS	5 5	10 0
B-DENY	0 10	1 1

## Spotting non-Competitors

---

Via : the Herfindahl-Hirschman Index (HHI)

It is a commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers.

The HHI increases as the number of firms in the market decreases, and as the disparity in size between those firms increases.

For example, for a market consisting of four firms with shares of thirty, thirty, twenty and twenty percent, the HHI is 2600 ( $30^2 + 30^2 + 20^2 + 20^2 = 2600$ ).



## FAST FACTS

Some industries with high Herfindahl Indexes include:

<i>Industry</i>	<i>H-H Index</i>
Breakfast cereal	2,773.7
Snack food manufacturing	2,618.9
Primary copper	2,826.8
Household refrigerator/freezer mfg.	2,161.6
Farm machinery/equipment mfg.	2,133.8
Glass container mfg.	2,079.7

*Source:* 1997 Economic Census, Concentration Ratios in Manufacturing, Table 3, Released 2001.