

Title: Evaluating Market Power Using Competitive Benchmark Prices Rather than the Herfindahl-Hirschman Index

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ABSTRACT

Whenever feasible, market power determinations should rest on competitive benchmark prices rather than the typical market concentration approach. Government regulators in many countries have issued guidelines on the evaluation of market power in the merger context and other areas that define relevant markets and calculate market shares—along with a summary measure of market concentration, usually the Herfindahl-Herfindahl index (HHI). However, competition authorities recognize that high concentration measures are generally not a sufficient condition to infer market power. Use of other structural factors in a market often does not lead to any clearer conclusion. We show that prices that consumers pay for the product in question often offer a superior quantitative measurement that leads to a clearer conclusion than the HHI approach. Further, because prices form the basis for the evaluation of consumer welfare (consumers surplus), they also provide important information for competition authorities, whose goal is typically the protection of consumer welfare. To demonstrate our argument, we examine a decision by the Irish telecommunications regulator, ComReg, which used the EU competition guidelines and the HHI approach to determine that Ireland's two largest mobile providers, Vodafone and O2, had joint dominance and were exercising significant market power. We demonstrate how our benchmark prices approach is superior to the HHI approach.