

Some Simple Graphical Interpretations of the Herfindahl-Hirshman Index and their Implications

by

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Abstract

This paper considers the Herfindahl-Hirshman (H) index for analysing industrial concentration in oligopoly markets. We find two new geometric interpretations of the index that have several implications as to the way in which mergers between firms in oligopoly markets will affect the value of the index. We show that, as other authors have argued, strict reliance upon the H index can indeed lead to incorrect policy concerning anti-trust issues if the true policy objective is social welfare. Furthermore, we show that there exist other measures, that do not require any more information than what the H index requires that avoid these problems.

Key Words and Phrases: Herfindahl-Hirshman index, mergers, oligopoly