

ECON 224, Prof. Hogendorn

Problem Set 5

1. *Boatshoes*. Recall that there are four main brands of boat shoes: Sperry Top-Sider, Sebago, Frye, and Eastland. We assume that all other shoe companies that make boat shoes currently sell too few to have much impact on the market and that each of the above brands firm has exactly 25% of the market. A few years ago, the companies that own Sperry and Sebago merged. The antitrust authorities decided not to challenge this merger. Describe how each of the following would have been used in the review of the merger.
 - (a) Clayton Antitrust Act
 - (b) Hart-Scott-Rodino Act
 - (c) Diversion ratio
 - (d) Potential entry
 - (e) Merger-specific efficiencies.

2. *HomeDepot*. Suppose that Home Depot has 70% market share and Lowe's has 30%.
 - (a) If we take these to be the only two firms in the market, what is the HHI? What is the CR4?
 - (b) Suppose that despite there being two firms, the DOJ finds that the firms are charging the monopoly price. How might the government deal with this, and on what basis in law?
 - (c) Do you think that in a typical local market, Home Depot is a normative natural monopoly? Is it a positive natural monopoly? Explain and draw a graph for your answer.

- (d) Suppose the government decided to regulate Home Depot by imposing average cost pricing. Describe and illustrate with a graph how rate-base/rate-of-return regulation would work in this case.
3. True or false, and explain: the electricity industry is divided into three segments: digestion, circulation, and defibrillation.