ASSIGNMENT: Competition

DIRECTIONS: An interesting way to determine whether a market is best described as a monopoly, oligopoly, monopolistic competition, or pure (perfect) competition is to calculate the Herfindahl-Hirschman Index (HHI).

If you know the market share of a company, the HHI is a powerful tool to quantitatively determine the competitive structure of that market.

In order to calculate the HHI, square the market share expressed as a whole number for every company in that market and add them together. Sums closer to zero indicate perfect (pure) competition and numbers closer to 4,000 indicate a monopoly.

0 ---------------------------- 1,500 ----------------------- 2,500 ------------------- 4,000

Perfect competition   Monopol. Comp.   Oligopoly   Monopoly
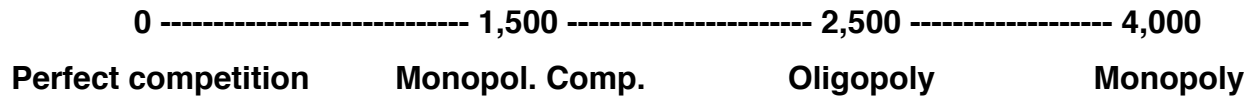
For example: here's the wireless industry in 2003: (source - Blue Field Strategies)

Verizon: 24% of all wireless connections
Cingular: 15%
AT&T: 14%   To calculate HHI, we square all the
Sprint: 10%   percentages after converting them
Nextel: 8%   to whole numbers.
T-Mobile: 8%
Alltel: 5% $\Sigma (24^2 + 15^2 + 14^2... + 5^2) = 1250$
Other companies: 16%
                                             < we omit the "Other" category >

Here's the data for the same industry in 2009: (source - Blue Field Strategies)

Verizon: 32%   AT&T: 29%   Sprint: 18%   T-Mobile: 12%   Other: 9%

Here's the data for the wireless industry in 2013: (source - Blue Field Strategies)

Verizon: 30%   AT&T: 33%   Sprint: 17%   T-Mobile: 13%   Other: 7%

Using your values for HHI, please comment on the state of competition in the wireless industry since 2003. (Please omit "Other" for these calculations)

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