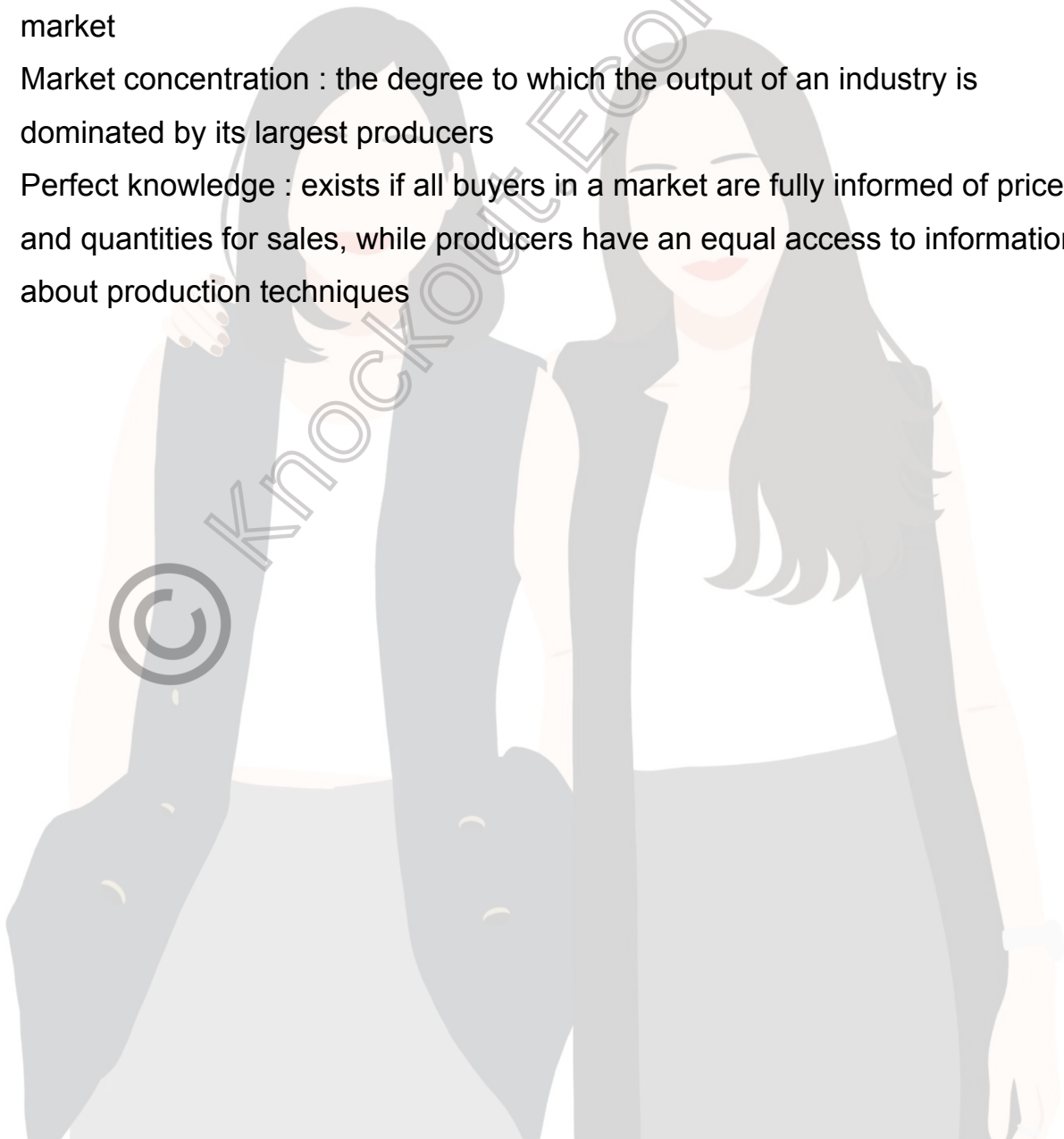


CHAPTER 9 : Market Structure and concentration ratios

Key terms

1. Barriers to entry : factors which make it difficult or impossible for firms to enter an industry and compete with existing producers
2. Barriers to exit : factors which make it difficult for firms to cease production and leave an industry
3. Concentration ratio : the market share of the largest firms in an industry.
4. Independent : when actions of one firm will have an impact on other firms in the market
5. Market concentration : the degree to which the output of an industry is dominated by its largest producers
6. Perfect knowledge : exists if all buyers in a market are fully informed of price and quantities for sales, while producers have an equal access to information about production techniques



1. Concentration ratio

: the market share of the largest firms in an industry.

: N-firm concentration ratio measures the proportion of the total sales produced by the N largest firms in the industry.

$$\left(\frac{\text{Total sales of N firms in the industry}}{\text{Total sales of all firms in industry}} \right) \times 100$$

: higher number of concentration ratio, the more concentrated in the industry and the fewer firms that dominate in the market.

: lower concentration ratio, the more competitive in industry

