Recapture, Pass-Through, and Market Definition

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Abstract

We describe how the hypothetical monopolist test used to define relevant markets in horizontal merger cases can be implemented using the fundamental economic concepts of opportunity cost and pass-through. Unlike critical loss analysis, our approach analyzes the behavior of a profit-maximizing hypothetical monopolist, as called for in the 1992 Horizontal Merger Guidelines. This approach also can provide a consistency check between relevant markets defined using the hypothetical monopolist test and claims regarding the pass-through of merger-specific efficiencies.