GEOGRAPHIC MARKET DEFINITION UNDER THE DOJ MERGER GUIDELINES*

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I. Introduction

There is a considerable body of literature discussing how geographic markets should be delineated for antitrust purposes. Noteworthy contributions include Elzinga and Hogarty (1973), Shrieves (1978), Horowitz (1981), and Stigler and Sherwin (1983).[1] The 1982 Department of Justice Merger Guidelines (DOJ Guidelines) and their revision in 1984 provide a new methodology for defining markets relevant for antitrust purposes and elaborate on how this definition should be applied in a geographic market context.

This paper has four purposes:

(1) We analyze the underlying economic model of the DOJ Guidelines' treatment of geographic markets. The basis of this model is the <u>residual demand</u> facing a given group of producers.[2] The price elasticity of the residual demand provides a basis for a new empirically implementable test for the extent of geographic markets.

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[1] For a collection of many of the papers addressing the problem of delineating relevant markets in antitrust, see Elzinga and Rogowsky (1984).

[2] By residual demand we mean the demand function specifying the level of sales made by the group as a function of the price they charge. The analysis of residual demand in a geographic context is developed below.