

share is collected monthly and distributed to all five firms in the industry. New entry would take eighteen months and would be likely and sufficient.

Suppose that the fourth and fifth firms propose to merge. Such a merger could increase the likelihood of successful collusion by reducing the number of firms in the industry and by reducing the heterogeneity among these firms. A collusive agreement among the four remaining firms presumably would fix price or allocate market shares. If one of the firms defected from this collusive agreement, the other three firms seemingly could quickly discover and punish this defection. Let us assume that a period lasts one and one-half months since defection would be discovered as soon as the monthly price and market share data was distributed, and since the other firms could punish defection simply by lowering their price. Assuming this, there would be 12 periods before entry would end the collusive agreement. In this case, game theory models and experimental tests of these models suggest that collusion could be sustained in the early periods but not in the later periods. Thus, as this hypothetical case shows, even entry that takes less than two years may not always deter collusion.

Hospital Mergers

Our third example considers a hypothetical merger in the hospital industry. Two recent changes in the hospital industry may have made collusive behavior less likely. First, over the past ten to fifteen years, the identity of the customer has changed. In the past, patients and their physicians largely selected hospitals based on quality considerations, because insurance plans gave patients little

