The Herfindahl-Hirschman Index

The Herfindahl-Hirschman Index (‘HHI’) (also know as the Herfindahl Index) is a commonly accepted measure of market concentration. It is calculated as follows, where $s_i$ is the market share of the $i$'th firm competing in the market (and there are $n$ such firms):

$$HHI = \sum_{i=1}^{n} s_i^2$$

The HHI can in principle range from close to zero (very close to perfect competition, with no one firm having a material market share) to unity (perfect monopoly). Often the $s_i$ are expressed in percentage terms, in which case the HHI can range from close to zero to 10,000.

N.B. According to dictionary.reference.com (as at 11 January 2011) the US Department of Justice considers a market with an HHI (using percentage market shares) of less than 1,000 to be a competitive market place, one with 1,000 to 1,800 to be a moderately concentrated marketplace and one resulting in greater than 1,800 a corresponding to a highly concentrated marketplace.

See also the MnHerfindahlHirschmanIndex web function.