

the decision criterion becomes

$$(1) \quad \frac{\left( \frac{P_w - AC_2}{AC_2} \right) \left[ \frac{\varphi}{Q_1} + 1 + \eta \left( 1 - \frac{1 + \frac{P_w - AC_2}{AC_2}}{P_1/AC_2} \right) \right]}{\left[ \frac{P_1}{AC_2} \left( 1 + \frac{\Delta P}{P_1} \right) - 1 \right] \left( 1 - \eta \frac{\Delta P}{P_1} \right)} > 1$$

where

$\left( \frac{P_w - AC_2}{AC_2} \right)$  is the percentage by which post-merger costs are expected to be below the world price. Again, if  $AC_2$  is approximately equal to the marginal costs of production in foreign countries, this term is approximately equal to the percentage that per unit transportation costs are of the production costs of imports.

$\frac{\varphi}{Q_1}$  is the ratio of permitted imports to pre-merger domestic production.

$\frac{P_1}{AC_2}$  is the ratio of the pre-merger price to post-merger unit costs, or approximately the proportion by which the domestic pre-merger price is elevated above the marginal costs of production for foreigners.

$\eta$  is the price elasticity of demand estimated at price  $P_1$ .

$$\eta = - \frac{\Delta Q}{\Delta P} \frac{P_1}{Q_1}.$$

$\frac{\Delta P}{P_1}$  is the percentage by which the post-merger firm might be expected to increase the price.  $\Delta P = P_2 - P_1$ .

Because this expression has five different variables in it, it does not readily lend itself to discussion without simulation using various ranges of values for each of the variables. These calculations were carried out, and Tables 1 through 4 report the minimum values of  $P_w/AC_2$  for which the post-merger firm would expand its output to  $Q_3$  and charge the world price,  $P_w$ . It is apparent from these tables that the merger-induced cost reductions necessary for this expansion will be lower for lower values of  $\Delta P/P_1$  and for higher values of  $\varphi/Q_1$ . Furthermore, if  $1 - (P_w/AC_2)$  is approximately equal to the proportion of the world price accounted for by transportation costs, these transportation cost must be a fairly large fraction of  $P_1/AC_2$ . For policy-making purposes, government officials would be able either to use criterion (1) directly based on their own estimates