

**On the Use of Profit Data
to Estimate the Social Cost of Monopoly Power in an Oligopoly**

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Abstract: Relatively high estimates of the welfare cost of monopoly power in U.S. manufacturing industries have been obtained by economists who use the Lerner equation to estimate this welfare cost from profit data. These Lerner equation loss estimates are appropriate for a monopoly with constant costs and linear demand. But if the industry is in a Nash-Cournot equilibrium, the Lerner equation loss estimates can be more than twice as large as the actual welfare gain that would result from the elimination of monopoly power. Partial and general equilibrium examples are presented to illustrate the nature of the estimation errors.