

Nevo and Wolfram(2002) summary

This study is about exploring whether the relationship between shelf prices and manufacturers' coupons for ready-to-eat breakfast cereals is consistent with the widely expressed view that coupons are primarily a tool to allow price discrimination. As well as the researcher seek to provide insight on the empirical relevance of other theories for why manufacturers use coupons. The data used in this study is a three-dimensional panel dataset with information on shelf prices and available coupons for 25 RTE breakfast cereal products in up to 65 cities for every quarter from the beginning of 1989 until the end of 1992. For the result, this study finds that shelf prices are generally lower when there is a coupon available, and this result holds as we add a number of fixed effects to control for unobserved changes in demand and costs. Furthermore, they also find evidence suggesting that coupons are used most intensively at the end of manufacturers' fiscal years, which differ across manufacturers. This suggests that brand managers have incentives to use coupons and price cuts simultaneously. Lastly, by examining a vector auto-regression model, the results are inconsistent with dynamic models that predict lower prices could accompany coupons after periods of low demand. They find that coupons might be used to encourage repeat purchases as lagged coupons are positively correlated with current sales. I think these questions are interesting for me from two sides. As a consumer, this study shows us how the market mechanism works in this industry. On the other hand if we are a supplier, we can use this strategy to convince our consumer effectively. For this paper, the economic theory used including price discrimination in the model of monopoly and obligopoly. I think the method and variable used in the econometric models are appropriate for this research as they focus mainly on showing the price discrimination. All in all, the results are convincing to me as they are relevant to the reality that coupons are used to encourage repeat purchases of consumers.

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