

This paper is done to study about the relationship between coupons and shelf prices. The main question of the research is “Whether the relationship between coupons and shelf prices is consistent with the widely expressed view that coupons are primarily a tool to allow price discrimination”. The methods used in the study are the theory of static monopoly price discrimination and regressions. There has been the null hypothesis of monopoly price discrimination conducted as well. Moreover, the researcher has conducted Hausman tests on six sets of fixed effects: city, quarter, brand, city-brand, city- quarter, and brand-quarter. The type of data used is a three-dimensional panel dataset with information on shelf prices and available coupons for 25 RTE breakfast cereal products. The data were gathered among 65 cities for every quarter from the beginning of 1989 until the end of 1992. They obtain the data by observing some cities in which there was a coupon distributed for a particular brand and other cities in which a coupon was not distributed for that brand and comparing shelf prices under the two scenarios. The empirical model, which is the regression model is appeared as follows:

The relationship between prices and coupons

$$SHELF\ PRICE_{bct} = \gamma_{b(c)} + \phi_{c(t)} + \delta_{t(b)} + \theta DOLLARS\ OFF_{bct} + \varepsilon_{bct}, \quad (1)$$

The variables and their meanings are as follows:

- $SHELF\ PRICE_{bct}$ is the average shelf price for cereal brand b in city c during quarter t .
- $DOLLARS\ OFF_{bct}$ is the expected value of the coupon available for cereal brand b in city c during quarter t .
- $PROB\ OF\ COUPON_{bct}$, which reflects the probability that there is a coupon for a given city, brand, and quarter.
- γ_b and ϕ_c capture brand- and city-specific factors that affect demand or the cost of selling cereal.
- δ_t is included to capture the trend in cereal prices over the time period that the research team consider.

The results indicate that both the negative correlation between prices and coupons and the dynamic results suggest that neither static nor intertemporal monopoly price discrimination considerations are predominant. There are various additional explanations for coupons being considered. The results suggest that coupons are driven by some combination of (1) strategic interactions between manufacturers, (2) incentives given to the people with firms who make decisions about coupons, and (3) the effects of coupons on repeat purchases. The results on Table 6 and Figures 1-3 suggest that s, that manufacturers' decisions to coupon are not a function of previous quantities sold.

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Lagged values of quantity do not increase either the likelihood of introducing a coupon or the face value of the coupon, which the results shown are contrary to the prediction that lagged coupons have a positive effect on current sales, suggesting that coupons are used to induce repurchase; one of the predictions of a Sobel-like theory of intertemporal price discrimination. This paper is beneficial in term of the rationale behind the incentives of firms giving out coupons to people. Coupons attract the customers and induce them to repurchase. However, the fact that manufacturers seem to dislike coupons lends credence to our finding that coupons are not jointly profit-enhancing price-discriminatory mechanisms. The economic theory that is mainly used in this research is the static monopoly price discrimination. I think it is appropriate to a certain extent. However, there is the need for further research as the results suggest that seller decisions about prices and coupons are inconsistent with the simple textbook view of coupons as price-discrimination tools. The researcher should supply more theoretical work to support why their results are against what being said in textbooks, which the textbooks view coupons as price-discrimination tools. This makes it less convincing because their results suggest that seller decisions about prices and coupons are inconsistent with the simple textbook view of coupons as price-discrimination tools, which means that there should be a bigger scope for more theoretical work on the rationales for coupons.