

## Nevo and Wolfram 2002

This paper is explain the relationship between shelf prices and manufacturers' coupons for 25 ready- to-eat breakfast cereals. Coupons is a tool that allow price discrimination. The author try to finding what other theories answer the question why manufacturers use coupons.

Methodology they use is 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

### Vector auto-regressive (VAR) model

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

- SHELF PRICE<sub>bct</sub> is the average shelf price for cereal brand b in city c during quart.

- d DOLLARS OFF<sub>bct</sub> is the expected value of the coupon available for cereal brand b

From my perspective , the question are interesting enough due to they trying to find another specifically answer. The benefits from this paper is to enhance the ability to implement the strategies to manufacturers which focus on short run and non price strategies.

The economic theories that were used are price discrimination , oligopoly and market competition. Yes, the method in VAR model is appropriated. I do not think the result is convincing due to it based on the vertical relationship between cereal manufacturers and retailers are important. The result are inconsistent with the models that lower prices could accompany coupons after periods of low demand which coupon are driven by (1) strategic interactions between manufacturers, (2) incentives given to the people within firms who make decisions about coupons, and (3) the effects of coupons on repeat purchases.