

Summary of Nevo and Wolfram(2002) for EE489

In this research paper, the authors tried to observe the reasons for the manufacturers to use coupons in the specific market of the Ready-to-eat(RTE) breakfast by observing the use of coupons across 25 brands in different countries quarterly from 1989 to 1992 and they will also try find different explanations for the negative relationship between the shelf prices and the issuance of coupons further in the paper.

The first two explanations offered by the authors before running regression and observing further into the paper were that it was a form of actions to conduct price discriminations in order to identify consumer groups with different elasticity and gain higher profit. Another explanation was that the negative relationship between the issuance of the coupons and the decrease in price was the result of a strategic vertical relationship between the manufacturers and the retailers.

The authors then try to observe further into the issue and run multiple regression in order to prove the statistical significance according to the assumptions set by the author at the beginning of the paper with the regression equation as follows.

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

With SHELF PRICE represents average shelf price in brand b city c quarter t and DOLLARS represent expected value of coupons. This goes in as the base equations before the authors substitutes more independent variables such as PROB OF COUPONS, COMPETITOR COUPONS and many more.

In the end, after the authors observed the issues further to prove their assumptions, they found that the explanations of coupons being the tools to conduct price discriminations came out way too insignificant as well as the explanations of the vertical relationships between the manufacturers and the retailers are not important as well. The author also found that the producers are forced to use coupons unwillingly and that they hate it. The coupons may not be the tools to conduct price discrimination as understood in the textbooks.