

Part 1

The researcher explored whether the relationship between shelf prices and manufacturers' coupons for 25 ready-to-eat breakfast cereals is consistent with the widely expressed view that coupons are primarily a tool to allow price discrimination. This paper applied econometrics using panel data with information on shelf prices and available coupons for 25 RTE breakfast cereal products in up to 65 cities from 1989 until 1992. The cereal price data were obtained from the IRI Infoscan Data Base at the University of Connecticut, and weekly data for UPC-coded products are drawn from a sample. While the coupon data were obtained from Promotion Information Management (PIM) for every brand produced by the top five cereal manufacturers from 1989 through 1992.

The equation :

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

SHELF PRICE is the average shelf price for cereal brand b in city c during quarter t.

DOLLARS OFF is the expected value of the coupon available for cereal brand b in city c during quarter t.

They found that shelf prices are generally lower during periods when coupons are available. The result is inconsistent with static monopoly price discrimination under a broad range of assumptions.

Part 2

The topic is interesting. From knowing the answer even I do not have a coupon but I can wait for an offer for a better price. This finding used a model of static monopoly price discrimination and vertical relationship between manufactureres and retailers. Since coupons were issued in response to intertemporal patterns in demand so using the panel structure is more appropriate to cross-sectional data to answer the research question. The variables used in the equation are appropriate. The results are convincing. This is because coupons may induce consumers to try new brands making them more likely to buy in the future and price cuts are used to induce repurchase.

