

AREC 710
Advanced Agricultural Economics

Instructors: Marco Costanigro and Alessandro Bonanno

Office Hours: By appointment with individual instructors

Meeting time: W 2-3:40 pm **Location:** Walnut 111

Readings: The Oxford Handbook of the Economics of Food Consumption and Policy
Additional Handouts and Materials posted online

Grading:	Take home exam	30%
	Homeworks (two)	20%
	Paper	30%
	Student presentation	10%

Tentative Course Outline

Instructor: Marco Costanigro

A. Vertical differentiation:

- i. Vertical differentiation, basic models of demand (Tirole, chapter 2.1)
- ii. Chapter 9 (Giannakas) in Lusk, Jayson L., Jutta Roosen, and Jason Shogren. 2011. *The Oxford Handbook of the Economics of Food Consumption and Policy*. Oxford University Press, USA.
- iii. Moschini Giancarlo, Luisa Menapace and Daniel Pick, 2008. Geographical Indications and the competitive provision of quality. *American Journal of Agricultural Economics*. 90 (3).
- iv. Fulton, Murray, and Konstantinos Giannakas. 2004. "Inserting GM Products into the Food Chain: The Market and Welfare Effects of Different Labeling and Regulatory Regimes." *American Journal of Agricultural Economics* 86 (1): 42–60.
- v. Mérel, Pierre, and Richard J. Sexton. 2012. "Will Geographical Indications Supply Excessive Quality?" *European Review of Agricultural Economics* 39 (4): 567–87. <https://doi.org/10.1093/erae/jbr056>.

B. Heterogeneous preferences in models of vertical differentiation:

- i. Random Parameters and Mixed Logit. K. Train. discrete choice experiments with simulation. Chapter 6.
- ii. Menapace, L., G. Colson, C. Grebitus, and M. Facendola. 2011. "Consumers' Preferences for Geographical Origin Labels: Evidence from the Canadian Olive Oil Market." *European Review of Agricultural Economics*, January. <https://doi.org/10.1093/erae/jbq051>.
- iii. Onozaka, Y., and D. Thilmany Mcfadden. 2011. "Does Local Labeling Complement or Compete with Other Sustainable Labels? A Conjoint Analysis of Direct and Joint Values for Fresh Produce Claim." *American Journal of Agricultural Economics* 93 (3): 693–706.
- iv. Gunderson, Michael A., Jayson L. Lusk, and F. Bailey Norwood. 2009. "Getting Something from Nothing: An Investigation of Beef Demand Expansion and Substitution." *Applied Economic Perspectives and Policy* 31 (1): 68–87. <https://doi.org/10.1111/j.1467-9353.2008.01426.x>.

C. Vertical differentiation with uncertain quality: The Economics of Information:

- i. Stigler, George J. 1961. "The Economics of Information." *The Journal of Political Economy* 69 (3): 213–25.
- ii. Akerlof, George A. 1970. "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." *The Quarterly Journal of Economics* 84 (3): 488–500.
- iii. Nelson, Phillip. 1970. "Information and Consumer Behavior." *The Journal of Political Economy* 78 (2): 311–29.
- iv. Shapiro, Carl. 1982. "Consumer Information, Product Quality, and Seller Reputation." *The Bell Journal of Economics* 13 (1): 20–35.
- v. ———. 1983. "Premiums for High Quality Products as Returns to Reputations." *The Quarterly Journal of Economics* 98 (4): 659–80.
- vi. Winfree, Jason A., and Jill J. McCluskey. 2005. "Collective Reputation and Quality." *American Journal of Agricultural Economics* 87 (1): 206–13.
<https://doi.org/Article>.
- vii. Costanigro, M., J.J. McCluskey, and C. Goemans. 2010. "The Economics of Nested Names: Name Specificity, Reputations, and Price Premia." *American Journal of Agricultural Economics* 92 (5): 1339–1350.
- viii. Lusk, J. L., T. C. Schroeder, and G. T. Tonsor. 2013. "Distinguishing Beliefs from Preferences in Food Choice." *European Review of Agricultural Economics*, December, jbt035.
- ix. Messer, Kent D., Marco Costanigro, and Harry M. Kaiser. 2017. "Labeling Food Processes: The Good, the Bad and the Ugly." *Applied Economic Perspectives and Policy* 39 (3): 407–27.

D. Horizontal differentiation:

- i. Chapter 10 (Merel and Sexton). Lusk, Jayson L., Jutta Roosen, and Jason Shogren. 2011. *The Oxford Handbook of the Economics of Food Consumption and Policy*. Oxford University Press, USA.

Instructor: Alessandro Bonanno

E. Market power models of homogenous product markets

- i. Appelbaum, E. 1982. "The Estimation of the Degree of Oligopoly Power" *Journal of Econometrics*, 19, 287–299.
- ii. Azzam, A. M. 1997. "Measuring Market Power and Cost-Efficiency Effects of Industrial Concentration," *Journal of Industrial Economics*, 45, 377–386.
- iii. Bresnahan, T. F. 1989 "Empirical Studies of Industries with Market Power" in R. Schmalensee and R. Willig, eds., *Handbook of Industrial Organization*, Vol. 2. Amsterdam: North-Holland.
- iv. Cai, X., Stiegert, K.W., and Koontz, S.R. 2011. Regime switching and oligopsony power: The case of US beef processing. *Agricultural Economics*, 42(1), 99–109.
- v. Genesove D. and Mullin W. P. 1998. "Testing Static Oligopoly Models: Conduct and Cost in the Sugar Industry, 1890-1914" *The RAND Journal of Economics* 29(2):355-377
- vi. Lopez, R.; Azzam A., and Liron Espana, C. 2002. "Market Power and/or Efficiency: A Structural Approach" *Review of Industrial Organization* 20: 115–126.
- vii. Perloff, J. M., Karp, L. S. and Golan. A. 2007. Ch.1 "Introduction and Overview"; Ch. 2 "Structure – Conduct – Performance" 2–42. Ch. 3 "The Structural Approach." 42–73.

- F. Demand models for diff. prod. markets' analysis; estimating games
- i. Deaton A and Muellbauer, J. 1980. "An Almost Ideal Demand System" *The American Economic Review*, Vol. 70, No. 3. pp. 312-326.
 - ii. Dhar T., Chavas J.P., and Gould B.W. 2003. "An Empirical Assessment of Endogeneity Issues in Demand Analysis for Differentiated Products" *American Journal of Agricultural Economics*, 85 (3): 605-617.
 - iii. Dhar T., Chavas, J.P., Cotterill R.W. and Gould B.W. 2005. "An Econometric Analysis of Brand-Level Strategic Pricing between Coca-Cola Company and PepsiCo." *Journal of Economics & Management Strategy*, 14 (4): 905-931.
 - iv. Hausman, J. A., Leonard, G., and Zona. J.D. 1994. "Competitive Analysis with Differentiated Products." *Annales d'Economie et de Statistique*, 34 159-180
 - v. Lewbel A. and Pendakur, K. 2009. "Tricks with Hicks: The EASI Demand System" *American Economic Review*. 99(3): 827-63.
 - vi. Moschini, G., Moro, D. and Green, R.D., 1994. Maintaining and testing separability in demand systems. *American Journal of Agricultural Economics*, 76(1), pp.61-73.
 - vii. Pendakur K. 2008 "EASI made Easier." Ch. 7 in Daniel J. Slottje (ed.) *Quantifying Consumer Preferences (Contributions to Economic Analysis, Vol. 288)* Emerald Group Publishing: 179- 206. Working paper available at <http://www.sfu.ca/~pendakur/EASI%20made%20Easier.pdf>
 - viii. Perloff, J. M., Karp, L.S., and Golan. A. 2007. Chapter 4 – The Structural Approach. pp 74 – 92.
 - ix. Richards, T. J., and Bonnet, C. 2016. Models of consumer demand for differentiated products. Working Paper No. 16-741. Toulouse School of Economics (TSE).
 - x. Zhen, C., Finkelstein, E.A., Nonnemaker, J.M., Karns, S.A. and Todd, J.E., 2013. Predicting the effects of sugar-sweetened beverage taxes on food and beverage demand in a large demand system. *American Journal of Agricultural Economics*, 96(1), pp.1-25.
- G. Menu Approach, Discrete Choice Demand Models and Counterfactual simulation
- i. Berry, S. 1994. "Estimating Discrete-Choice Models of Product Differentiation," *Rand Journal of Economics*, 25, 242-262.
 - ii. Berry, S., Levinsohn, J., and A. Pakes. 1995. "Automobile Prices in Market Equilibrium," *Econometrica*, 63, 841-889.
 - iii. Bonanno, A., Huang, R. and Liu., Y 2015. "Simulating Welfare Effects of Europe's Nutrition and Health Claims regulation: the Italian Yogurt Market." *European Review of Agricultural Economics*. 42:499-533.
 - iv. Bonnet, C. and Bouamra-Mechemache, Z., 2015. Organic label, bargaining power, and profit-sharing in the French fluid milk market. *American Journal of Agricultural Economics*, 98(1), pp.113-133.
 - v. Bonnet, C. and Dubois P. 2010. "Inference on vertical contracts between manufacturers and retailers allowing for nonlinear pricing and resale price maintenance." *RAND Journal of Economics* 41 (1):139-16.
 - vi. Draganska, M., Klapper, D. and Villas-Boas, S.B., 2010. "A larger slice or a larger pie? An empirical investigation of bargaining power in the distribution channel." *Marketing Science*, 29(1), pp.57-74.
 - vii. Nevo A. 2001. "Measuring Marketing Power in the Ready-To-Eat Cereal Industry." *Econometrica*, 69, 307-342.
 - viii. Nevo, A. 2000. A Practitioner's Guide to Estimation of Random-Coefficients Logit Models of Demand, <http://rasmusen.org/g604/readings/Nevo00.pdf>.

- ix. Nevo A. 1998. Identification of the oligopoly solution concept in a differentiated-products industry. *Economics Letters* 59: 391–395.
- x. Petrin, A. 2002. “Quantifying the benefits of new products; the case of the minivan”, *Journal of Political Economy* 110, 705–729.
- xi. Rasmusen E. 2007. “The BLP Method of Demand Curve Estimation in Industrial Organization.” Class notes - Kelley School of Business, Indiana University. Available at <http://www.rasmusen.org/papers/blp-rasmusen.pdf>.
- xii. Richards, T. 2007 “A nested logit model of strategic promotion” *Quantitative Marketing and Economics* 5:63–91
- xiii. Richards, T. J., Bonnet, C., and Bouamra-Mechemache, Z. 2018. “Complementarity and bargaining power” *European Review of Agricultural Economics* 45(3) 297–331.
- xiv. Villas-Boas S. B. 2007. “Vertical Relationships between Manufacturers and Retailers: Inference with Limited Data.” *The Review of Economic Studies* Vol. 74, 2, pp. 625-652.
- xv. Villas-Boas S.B, and Hellerstein R. T. 2006. “Identification of supply models of retailer and manufacturer oligopoly pricing” *Economics Letters* (90):132–140

Class Schedule / Timeline

lesson	date	instructor	topic	Assigned work	Points	
1	8/22/2018	Costanigro	Vertical differentiation			
2	8/29/2018			HW1		
3	9/5/2018		Economics of Information			
4	9/12/2018					
5	9/19/2018			Horizontal differentiation		
6	9/26/2018					
7	10/3/2018	Bonanno	Homogenous product markets	HW1 due	15	
8	10/10/2018			HW2		
9	10/17/2018		Demand models for diff. prod. markets' analysis; estimating games			
10	10/24/2018					
11	10/31/2018			Menu approach, discrete choice; counterfactual simulations; vertical competition		
12	11/7/2018					
13	11/14/2018				HW2 due	15
11/21/2018 Fall Recess						
14	11/28/2018	Bonanno/ Costanigro	Student Presentations		10	
15	12/5/2018		Recap / Review	Paper due	30	
16			Take Home Final		30	

Homework: each instructor will assign one empirical group homework – each homework will require a considerable amount of work, and it will touch upon multiple topics that are covered in class, so DO NOT wait until the week before it is due to start working.

Paper and presentation: see handout

Take home final: We will assign one paper for an in depth review and analysis. Specific questions to address will be provided. Individual effort.