



Anchored in the past: Persistent price effects of obsolete vineyard ratings in France[☆]



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ABSTRACT

Although abundant evidence for anchoring in economic valuations has been produced in experimental settings, there have been relatively few studies testing for anchoring in actual markets. We analyze data on grape and vineyard prices in the Champagne region of France to determine whether current prices are anchored on past prices set under a discontinued price-setting system. The key feature of this system is a vineyard quality rating called the *Echelle Des Crus* (EDC). The econometric challenge is to separately identify anchoring effects from the effects of relevant information EDC era prices may convey about grape and vineyard quality. Our empirical approach controls for observable attributes of vineyards and time-invariant unobserved determinants of vineyard quality that may be revealed to market participants through EDC era prices. In addition, we use an instrumental variables strategy to mitigate confounding influences of time-varying unobservables. We find strong evidence that anchoring has large effects on prices for grapes and vineyards. We also examine whether the anchoring effect is diminishing over time as market participants come to rely more on objective information to determine prices. We find, instead, a persistent effect of the EDC many years after it became obsolete.

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1. Introduction

In a classic article, [Tversky and Kahneman \(1974\)](#) describe heuristic rules that people frequently employ in making judgments under uncertainty. These rules simplify the complex task of assessing probabilities and predicting values, but can often lead to systematic errors. One such heuristic involves making adjustments to an initial value, or starting point, to arrive at a final estimate. Laboratory experiments show that final estimates will often be systematically related to initial values,

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even when these starting points are arbitrarily chosen (Northcraft and Neale, 1987; Ariely et al., 2003).¹ This phenomenon is referred to as anchoring. Anchoring suggests that preferences are arbitrary, challenging the central tenet of welfare economics that the choices made by individuals reveal their true preferences (Ariely et al., 2003).

Alevy et al. (2015) discuss potential shortcomings of experimental studies on anchoring. First, while anchoring is frequently detected in laboratory settings, these studies cannot determine if the magnitude of the effects is large enough to affect actual market outcomes. Second, the studies often do not provide meaningful incentives to participants and, thus, anchoring may be the result of mistakes made by unmotivated subjects. This critique of the experimental literature motivates studies of anchoring effects in actual markets.² Beggs and Graddy (2009) analyze fine art auctions and find that the previous sale price for a painting has a strong influence on the current sale price. McAlvanah and Moul (2013) show that Australian horse-racing bookies fail to make sufficient adjustments to betting odds after a late withdrawal of a horse, thus anchoring on the original odds. Several studies have examined anchoring in the context of real estate transactions. Bokhari and Geltner (2011) and Bucchianeri and Minson (2013) find that higher listing prices for single-family homes are associated with higher final selling prices.

We analyze grape and vineyard prices in the Champagne region of France to determine whether current prices are anchored on prices determined under the obsolete *Echelle Des Crus* (EDC) system. Under this system, an appointed board of growers and champagne producers, the *Comité Champagne*, would set a single price for grapes during the harvest season. Grape growers would receive a percentage of this price according to the EDC (translated as “scale of vineyards”) of the village in which their vineyard is located. This price-setting scheme began in 1919 and persisted until 1990, when it was replaced by a market system for determining grape prices. The champagne industry provides an ideal setting for examining anchoring effects in actual markets. First, the EDC system was in place for most of the 20th century, ensuring that the anchor is salient to current market participants. Second, the price-setting system was abolished in 1990 and, thus, grapes prices from the EDC era have no relevance in the current market.³ Third, vineyards in the Champagne region are an extremely valuable asset (the mean vineyard price in 2012 was approximately \$1 million euros per hectare), providing market participants with strong incentives to value them accurately.

We conduct separate tests of anchoring effects using village-level data on grape prices for the period 1994–2011 and parcel-level data on vineyard prices for the period 2002–2012, following the approach in Beggs and Graddy (2009).⁴ The essence of the test is to determine if average grape prices from the EDC era (EDC prices) have an effect on current grape and vineyard prices once we have controlled for observable attributes of vineyards and any information the EDC prices may convey to market participants about vineyard quality. As in previous anchoring studies, we use the residuals from a hedonic regression with past prices to control for effects of time-invariant unobservables. However, as emphasized by Bucchianeri and Minson (2013), time-varying unobservables may still confound the estimates of anchoring effects. These authors present a robustness check that suggests time-varying unobservable factors do not affect their estimates. We address this issue directly by instrumenting for EDC prices and residuals using the average attributes of vineyards in neighboring villages.

In addition to contributing further evidence on anchoring effects in actual markets, we extend earlier studies by examining whether the influence of the anchor changes over time. In their field experiments, Alevy et al. (2015) find that familiarity with the good and repeated trading diminishes anchoring effects. In our application, we are able to test whether anchoring effects change over a period of many years. If the effects diminish with time, it would suggest that market participants come to rely more on objective indicators of quality as they gain experience in the market. Alternatively, in markets for highly heterogeneous goods that are exchanged infrequently, one might expect anchors to have persistent effects.

In the next section, we provide details on the champagne industry and the history of the EDC. The following sections describe the anchoring test, the empirical approach, and the data used in the application. Final sections present estimation results and conclusions.

2. History of Champagne and the Echelle Des Crus

Champagne is produced in northeastern France (Fig. 1). As with other wines and food products, the French government requires that the grapes used to make champagne be grown in a designated area, called the appellation d'origine contrôlée (AOC). Sparkling wines are produced elsewhere in France and throughout the world, but most countries have agreements with the French government not to use the term “champagne”. Two-thirds of all champagne, and almost all champagne for export, are produced by champagne houses that purchase grapes from growers in the surrounding area (Menival and Charters, 2014). The champagne houses, which include famous firms like Moët & Chandon, the makers of Dom Pérignon, are concentrated in the cities of Reims and Epernay (Fig. 1).

¹ A recent review of the experimental literature is found in Furnham and Boo (2011). Starting point bias has also been recognized for years by economists conducting stated preference surveys to elicit values for non-market goods (Brookshire et al., 1981; Boyle et al., 1985; Herriges and Shogren, 1996).

² In addition to the tests with observational data discussed below, Alevy et al. (2015) conduct field experiments of anchoring effects.

³ Although the EDC rating is no longer used to set prices, it still determines whether champagne can be labeled grand cru or premier cru, which likely adds a price premium to grapes. To ensure that we identify effects of anchoring rather than labeling, we analyze sub-samples of grape prices and vineyard sales within crus classes.

⁴ Similar anchoring tests are used in Bokhari and Geltner (2011), Bucchianeri and Minson (2013).

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