

Spring 2021 Econ 349 A WINE ECONOMICS

Course Outline/Syllabus/Information Sheet/Website (see Canvas)

Instructor:

Dr. R. Pete Parcels

Office Digital - Zoom <https://whitman.zoom.us/j/5301708285>

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Classroom: Online with Zoom and Maxey West 42

Office Hours: T, 11:30-12:30pm, 6:30-7:30pm, Th, 11:30-12:30am, and by appointment.

Note all times are PST or on March 8, 2021 or after, PDT (GMT -07:00)

Class is a Hybrid of Online Synchronous, Asynchronous, and possibly some physical get together (Maxey W 42 or at local wineries/vineyards/Institutes)

Class Time PST/PDT when scheduled: T 7:30-10:00pm Online.

Note time is GMT -07:00) and PST becomes PDT on March 8, 2021.

Time to talk with me or get help (via Zoom or phone) – see schedule

Normally Tue & Thur 11:30am-12:30pm or Tue 6:30-7:30pm [or set up an appointment.]

(see Parcels' website) <http://people.whitman.edu/~parcells/>

Class WEB-Site: canvas.whitman.edu – Wine Economics Econ 349A Sp21

Required Text: James Thornton, *American Wine Economics: An Exploration of the U.S. Wine Industry*, University of California Press, 2013.

Required Material: Wine Aroma Wheel Duo (Table wine + Sparkling wine) (Noble)



Optional Articles: Optional articles will be accessed on the “Wine Course Information” link given in the Econ 349 Canvas site. (note – if you receive a warning accessing this unsecured site, just continue to it.)

Background and Purpose

The wine industry in the United States continues to grow rapidly and wine consumption is becoming an increasingly important part of American culture especially with the current pandemic and continued social precautions. The U.S. wine industry in 2020 had almost 11,000 wineries producing wine. Since

2009, the number of wineries in the country has grown by over 50 percent. These firms range in size from small family-run businesses to large modern corporations, including multinational conglomerates. Many of these firms have nonprofit as well as profit objectives. The U.S. consumes more wine than any other nation in the world. One hundred million Americans drink wine. The wine market includes buyers that are brand loyal, wine snobs, conspicuous consumers, and those who often equate price with quality, sometimes therefore exhibiting seemingly uneconomic or irrational behavior. Wine is a complex and intriguing product with unique qualities that make it significantly different from a typical manufactured good. Because of these attributes, the wine industry lends itself to an interesting, novel, and entertaining application of microeconomic principles. What is more, wine economics is emerging as a new specialized field of study within the discipline of economics. The American Association of Wine Economists, an educational organization started in 2006 at Whitman College, is dedicated to promoting economic research on topics related to the wine industry and publishes the *Journal of Wine Economics*. This class will describe the organization, structure, and institutional features of the wine industry in the United States, and use economic concepts to explain how grape growers, wine producers, distributors, retailers, consumers, and government regulators interact and behave in the market for wine. Insights from research in the new field of wine economics will be presented. Wine is a unique product and it must be experienced to be adequately discussed. So, some visits to vineyards, production facilities, and the Walla Walla Community College Institute for Enology and Viticulture have been planned as part of the class.

Even if students have little interest in the wine product, they should find this class to be an interesting industry study that will help them better understand the structure and organization of other markets and industries in the U.S.

Evaluation

Your grade in the class will be based on four quizzes, a final exam, a case study, and class participation.

When determining your final grade, I will drop your lowest quiz grade. The format for the final exam is as follows. After completion of the material for each section of the class, an essay question(s) will be available for you to access in Canvas and prepare an answer in advance. Six of these questions will be selected for the final exam. You will answer four of these. One is a required question. You will then select three of the remaining five questions. You are expected to prepare thoughtful answers to the questions and will be evaluated accordingly. The case study is due Tuesday, May 11, 2021. You will receive a handout with case study instructions.

GRADING in This Course

Your grade will be determined by your earning the following overall percentage:

93% A	73% C
90% A-	70% C-
87% B+	67% D+
83% B	63% D
80% B-	60% D-
77% C+	Below 60% F

Grades

Grades will be determined using the following:

35% - Final Exam (Arranged)

35% - Quizzes (lowest score of four quizzes will dropped)

25% - Case Study Due by Tuesday May 11, 2021

05% - Participation

Homepage

This class is published in Canvas. Most of the material (Syllabus) is listed under “Files.” There is also a link in Canvas to “Wine Course Information.” This link (outside of Canvas) can be used to obtain a variety of information including the syllabus, handouts, lecture outlines, links to articles available on the web, and links to other sources of wine economics information on the web.

Outline and Readings

The following is a tentative outline of topics to be covered and a list of related readings. Given the current health situation, some of this may need to be revised. Readings fall under two categories: required and optional. The **textbook** is the required reading indicated by (*). All other readings are optional. Optional readings are designed to supplement class lectures and provide those of you who are interested in a particular topic, additional reading on that topic. Articles marked (w) are available on the Web. These articles can be accessed through links at the Econ 349 homepage or with a little work on your part.

I will provide a more detailed timeline early in the semester as scheduled events are confirmed, changed, or cancelled. You are expected to read material in advance of the class meeting, so you are prepared to participate. We will all learn from the material required, the material presented, and each other.

1. Introduction to Wine Economics

- A. What is wine economics?
- B. Economic characteristics of the wine industry
- C. Wine economics as a field of study
- D. Distinctive features of the wine market

Thornton, *American Wine Economics*, Introduction, chapter 1. (*).

Storchmann, K. (2012). “Wine economics.” *Journal of Wine Economics* 7, 1: 1-33.

2. The Wine Product

- A. Wine as a bundle of characteristics
- B. Wine as a differentiated and experience good
- C. Wine quality
- D. Expert wine descriptions and wine scores

- Thornton, *American Wine Economics*, chapters 2, 3. (*)
- Rosen, S. (1974). "Hedonic prices and implicit markets: Product differentiation in pure competition." *Journal of Political Economy* 82, 1: 34-55. (w).
- Quandt, R. (2007). "On wine bullshit: Some new software?" *Journal of Wine Economics* 2, 2:129-35. (w).
- Weil, R. (2007). "Debunking critics wine words: Can Amateurs distinguish the smell of asphalt from the taste of cherries?" *Journal of Wine Economics* 2, 2: 136-44.
- Ramirez, C. (2010). "Do tasting notes add value? Evidence from Napa wines" *Journal of Wine Economics* 5, 1: 143-63.

3. The Wine Firm

- A. Concept of a wine firm
- B. Legal organization of a wine firm
- C. Wine products and brands
- D. Transactions and contracts
- E. Wine firm objectives and constraints

- Thornton, *American Wine Economics*, chapter 9. (*)
- Coase, R. (1937). "The nature of the firm." *Economica*, ns., 4:16: 386-405. (w).
- Alchain, A., and H. Demsetz (1972). "Production, information costs, and economic organization." *American Economic Review* 62: 777-95. (w).
- Williamson, O. (1979). "Transaction-cost economics: The governance of contractual relations." *Journal of Law and Economics* 22: 233-61. (w).

4. Grape Growing, Grape Markets, and Grape Supply Cycles

- A. Grape grower objectives
- B. Grape growing choices affecting quantity, quality, and price
- C. Spot and long-term contract market for grapes
- D. Grape supply cycle

- Thornton, *American Wine Economics*, chapters 4, 5. (*)
- Heien, D. (2006). "Price formation in the California wine grape economy." *Journal of Wine Economics* 1, 2:162-72. (w).
- Ezekeil, M. (1938). "The cobweb theorem." *Quarterly Journal of Economics* 52, 2: 255-80. (w).
- Cuellar, S., Aaron, L., and M. Ammen (2006). "Forecasting California wine grape supply cycles." *Wine Business Monthly*, March. (w)

5. Wine Production

- A. Wine type and style
- B. Six steps involved in wine production

- Thornton, *American Wine Economics*, chapter 6. (*)

6. Bulk Wine, Private Label Wine, and Wine Alcohol

- A. What is bulk wine?
- B. Suppliers and demanders of bulk wine
- C. Factors affecting the price and quantity of bulk wine
- D. What is private label wine?
- E. Suppliers and demanders of private label wine
- F. The impact of private label wine and the wine industry
- G. High and rising alcohol content of wine
- F. Why higher alcohol and systematic labeling errors?

Thornton, *American Wine Economics*, chapter 7. (*)

Alston, J. et al. (2011). "Splendide mendax: false label claims about high and rising alcohol content of wine." American Association of Wine Economists Working Paper No. 82. (w).

Alston, J. et al. (2011). "Too much of a good thing? Causes and consequences of increases in sugar content of California wine grapes." *Journal of Wine Economics* 6, 2: 135-59. (w).

7. Wine Distribution and Government Regulation

- A. Wine distribution channels
- B. Government regulation of wine distribution
- C. Economic analysis of government regulation of wine

Thornton, *American Wine Economics*, chapter 8. (*)

Beliveau, B., and M. Rouse. (2010). "Prohibition and repeal: A short history of the wine industry's regulation in the United States." *Journal of Wine Economics* 5, 1: 53-68. (w).

Ellig, J., and A. Wiseman. (2011). "Competitive exclusion with heterogeneous sellers: The case of state wine shipping laws. American Association of Wine Economists Working Paper No. 90. (w).

Ellig, J., and A. Wiseman. (2007). "The politics of direct wine shipping." *Journal of Law, Economics, and Policy* 3, 2.

Richard, B. et al. (2011). "Regulating the availability of beer, wine, and spirits in grocery stores: Beverage specific effects on prices, consumption, and traffic fatalities." American Association of Wine Economists Working Paper No. 95. (w).

Peltzman, S. (1976). "Toward a more general theory of regulation." *Journal of Law and Economics* 19: 211-40.

Riekhof, G., and M. Sykuta (2005). "Politics, economics, and the regulation of direct interstate shipping in the wine industry." *American Journal of Agricultural Economics* 87, 5: 439-52.

8. Wine-Firm Behavior

- A. Price and quality behavior
- B. Outsourcing and insourcing behavior

- Thornton, *American Wine Economics*, chapter 10. (*)
- Akerlof, G. (1970). "The market for lemons: Qualitative uncertainty and the market mechanism." *Quarterly Journal of Economics* 84: 488-500. (w).
- Scott Morton, F., and J. Podolny (2002). "Love or money? The effects of owner motivation in the California wine industry." *Journal of Industrial Economics* 50, 4: 431-56. (w).
- Parmigiani, A. (2007). "Why do firms both make and buy? An investigation of concurrent sourcing." *Strategic Management Journal* 28: 285-311. (w).

9. The Wine Consumer and Demand

- A. Characteristics and attitudes of wine consumers
- B. Trends and patterns in wine consumption
- C. Factors affecting wine consumption

- Thornton, *American Wine Economics*, chapter 11. (*)
- Leibenstein, H. (1950). "Bandwagon, snob, and Veblen effects in the theory of consumers' demand." *Quarterly Journal of Economics*, May: 183:207. (w).
- Fogerty, J. (2008). "The demand for beer, wine, and spirits: Insights from a meta-analysis approach." American Association of Wine Economists Working Paper No. 31. (w).
- Cuellar, S., and R. Huffman (2008). "Estimating the demand for wine using instrumental variable techniques." *Journal of Wine Economics* 3, 2: 172-84.
- Cuellar, S. et al. (2009). "The sideways effect: A test for changes in the demand for Merlot and Pinot Noir." *Journal of Wine Economics* 4, 2: 219-32.
- Cuellar, S. et al. (2006). "Understanding the law of demand." *Wine Business Monthly*, March. (w).

10. The Wine Consumer, Quality, and Price

- A. Concept and measurement of wine quality
- B. Wine quality, demand, and price
- C. Studies of wine quality and price

- Thornton, *American Wine Economics*, chapter 12. (*)
- Yang, N. et al. (2009). "Willingness to pay for sensory properties in Washington state red wines." *Journal of Wine Economics* 4, 1: 81-93.
- Nerlov, M. (1995). "Hedonic price functions and the measurement of preferences: The case of Swedish wine consumers." *European Economic Review* 39: 1997-1716.
- Combris, P. et al (1997). "Estimation of a hedonic price equation for Bordeaux wine: Does quality matter?" *Economic Journal* 107, 441: 390-402.
- Lecoq, S., and M. Visser (2006). "What determines wine prices: Objectives vs. sensory characteristics." *Journal of Wine Economics* 1, 1: 42-56. (w).
- Hodgson, R. (2008). "An examination of judge reliability at a major wine competition." *Journal of Wine Economics* 3, 2: 105-13. (w).
- Hodgson, R. (2009). "An analysis of the concordance among 13 U.S. wine competitions." *Journal of Wine Economics* 4, 1: 1-9. (w).

- Haeger, J., and K. Storchmann (2006). "Prices of American Pinot Noir wines: Climate, craftsmanship, critics." *Journal of Agricultural Economics* 35: 67-78.
- Brombrun, H., and D. Sumner (2003). "What determines the price of wine? The value of grape characteristics and wine quality assessments. *AIC Issues Brief*, January. (w).
- Landon, S., and C. Smith (1998). "Quality, expectations, reputation, and price." *Southern Economic Journal* 64, 3: 628-47. (w).
- Dubois, P., and C. Nauges (2007). "Identifying the effect of unobserved quality and experts' reviews in pricing of experience goods: Empirical application on Bordeaux wine. American Association of Wine Economists Working Paper No. 10. (w).
- Ashenfelter, O. et al. (1995). "Bordeaux wine vintage quality and weather." *Chance* 8, 4: 7-14. (w).
- Ashenfelter, O. (2010). "Predicting quality and prices of Bordeaux wine." *Journal of Wine Economics* 5, 1: 40-52. (w).
- Ramirez, C. (2008). "Wine quality, wine prices, and the weather: Is Napa different? *Journal of Wine Economics* 3, 2: 114-31.

11. The Globalization of Wine

- A. Indicators of wine globalization
- B. Causes of wine globalization

Thornton, *American Wine Economics*, chapter 13. (*)