

**Final Exam Study Questions
Econ 349A Wine Economics
Spring 2021 Prof Pete Parcells**

Introduction to Wine Economics

A friend of yours who is an Economics Major discovers that you are taking a class in Wine Economics. She makes the following comment. “From an economic point of view, wine is really no different from other beverages, and the market for wine is really no different from the market for a beverage like soda. Therefore, it’s a waste of time to study the wine market.” How would you respond to your friend? A last question – did this class on Wine Economics help you meet the Department of Economics Learning Goals? Be somewhat specific. (Learning Goals listed on Department Website and at end of this question list.)

<https://www.whitman.edu/academics/majors-and-minors/economics/economics-major-programs/learning-goals>

2. The Wine Product

What is quality and how can it be measured? Do you believe wine scores assigned by wine critics are an accurate measure of wine quality? Yes/no. Explain. As a consumer, do you believe wine scores provide you with useful information when making wine buying decisions? Yes/no. Explain.

3. Wine Sensory Characteristics

Explain how hedonic price theory can be used to analyze factors that affect wine quality, and the relationship between wine quality and price.

A number of empirical studies in wine economics have used the hedonic price approach to better understand wine quality and price. What do you believe the findings of these studies tell us about factors that affect wine quality and price?

4. Wine in Movies

Bottle Shock - Why was it so “earth shaking” that California wines “won” the “Judgement?” Why was there only one American journalist at the tasting?

Sideways - Did the film really lead to a decline in Merlot sales and an increase in Pinot Noir?

What was the evidence.

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5. The Wine Firm

Many wine firms buy bulk wine from other wine producers for one or more of their wine products. Discuss the advantages and disadvantages of buying bulk wine under a long-term contract.

Some economists argue that the proprietor of a small wine firm is motivated to maximize profit. This is because by maximizing wine firm profit, she will maximize her utility as a consumer. Discuss when this argument would be valid and why it would be valid. Discuss when this argument would not be valid and why it would not be valid.

6. Wine Crime

What are some examples (at least 5) of wine crime and prevention?

7. Grape Growing

You are a wine grape grower whose objective is to maximize profit. You believe there is a tradeoff between grape quality and yield. In July of the current growing season, you estimate that your grape yield in the coming harvest will be 5 tons per acre. Explain how using cluster pruning in July to reduce your yield to 4 tons per acre would affect your cost and revenue if there really is a tradeoff between quality and yield. Given that your objective is to maximize profit, what “decision rule” would you use to decide whether to cluster prune? Now suppose that a study finds scientific evidence to support viticulturist Richard Smart’s argument that the relationship between quality and yield is not a causal relationship but a correlation resulting from the amount of water vines receive during the growing season. Explain Smart’s argument and how this new evidence that supports it would affect your decision to cluster prune.

You are a wine grape grower who gets utility from both profit and growing high quality grapes. You are willing to trade-off a certain amount of profit for higher quality grapes. You plan to plant a new 10 acre vineyard. Discuss how you would choose what type of vines to plant, the location to plant the vines, and how densely to plant the vines.

8. Grape Markets and Supply Cycles

You are the proprietor of a wine firm. You are negotiating a five year contract to purchase cabernet Sauvignon grapes from a grower each year when the grapes are harvested. Discuss the quantity, quality, and price provisions you would prefer to have in the contract, and why you would prefer these provisions. Do you believe these provisions would be difficult to negotiate and costly to enforce? Explain.

What is the wine grape supply cycle? Use the cobweb theory to illustrate graphically and explain this phenomenon.

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9. Wine Production

An economic production function translates “inputs” into “outputs” and can be defined by a formula. Using the following general formula, briefly describe each of the variables (except Finished Wine).

Finished Wine = Function of (Wine Type & Style, Fermentation, Maturation, Clarification and Stabilization, Blending, Packaging)

10. Wine Tasting

Did you think the Wine Tasting exercise was a useful event for learning in a Wine Economics Class? (yes, no, maybe)? Explain why.

11. Wine Distribution and Government Regulation

You are the proprietor of a wine firm located in California that produces 5,000 cases of wine per year. You want to sell your wine products to consumers in Virginia. Discuss the advantages and disadvantages of distributing and selling your wine to consumers in Virginia through the direct-to-consumer channel and the three-tier channel.

Explain the public interest theory of regulation and the economic theory of regulation. Which one do you believe provides the best explanation of legislator behavior in regulating the market for wine today? Provide an argument to support your choice.

12. Wine Firm Behavior

Describe the structure of the commodity wine submarket. Explain how this market environment affects the price and quality behavior of wine firms that produce and sell commodity wines.

Use the theory developed by Scott-Morton and Podolny to explain how utility-maximizing wine firms can outcompete profit-maximizing wine firms in the upper-end of the premium and the luxury segment of the wine market.

Many wine firms sell a “first-label” Cabernet Sauvignon wine product and a “second-label” Cabernet Sauvignon wine product. The first-label is a high quality luxury wine and the second label is a lower quality premium wine. It is a common practice for these firms to insource the grapes for the first-label wine and outsource the grapes for the second-label wine. Provide a plausible explanation for this sourcing behavior.

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13. The Wine Consumer and Demand

A number of studies have analyzed the relationship between the price and quantity demanded of wine and report estimates of the price elasticity of demand for wine products. Discuss the economic implications of these estimates and conclusions you can draw from them.

14. The Wine Consumer, Quality, and Price

This question requires a more in-depth answer than Question 3 which was looking principally at Aroma. Explain how hedonic price theory can be used to analyze factors that affect wine quality, and the relationship between wine quality and price.

A number of empirical studies in wine economics have used the hedonic price approach to better understand wine quality and price. What do you believe the findings of these studies tell us about factors that affect wine quality and price?

Economics Department Learning Goals

Knowledge of Economic Concepts, Theories and Reasoning

Students should have an understanding of how economics can be used to explain and interpret:

- the behavior of agents (for example, firms and households) and the markets or settings in which they interact, and
- the structure and performance of national and global economies.

Students should also be able to evaluate the structure, internal consistency and logic of economic models and the role of assumptions in economic arguments. This understanding is required for the discipline's two broad categories of concepts, theories and reasoning--microeconomics and macroeconomics.

Intellectual and Practical Skills

Critical Reasoning

Students should be able to apply economic analysis to evaluate everyday problems and policy proposals and to assess the assumptions, reasoning and evidence contained in an economic argument.

Quantitative Analysis

Students should grasp the mathematical logic of standard macroeconomic and microeconomic models.

Students should know how to use empirical evidence to evaluate an economic argument (including the collection of relevant data for empirical analysis, statistical analysis, and interpretation of the results of the analysis) and how to understand empirical analyses of others.

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Communication

Students should be able to communicate effectively in written, spoken, graphical, and quantitative form about specific economic issues.

Citizenship

Students should include an economic way of thinking in their understanding of current events.

Students should know how to acquire information from databases of news and periodicals and from primary and secondary data sources.