

## Padua 2017 Abstract Submission

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### Keywords

lumping, splitting, categorization, wine ratings

### Research Question

Do lumping and splitting play a role in how expert ratings affect wine prices?

### Methods

To test that price setters 'lump and split' wines rated below 90 and wines rated 90+ into two discrete groups, we conducted regression analyses.

### Results

There is a difference between estimated coefficients of 90+ wines and the others; wines from sub-AVAs with excellent reputation getting a 90 or above points pays higher regional reputation premium.

### Abstract

In a vast and ever-changing world, humans are forced to organize and comprehend it all in order to live adequately and comfortably. Especially now, in this digital age, we are inundated with a seemingly endless stream of stimuli. Information is constantly available to us, and it is essential for the brain to somehow categorize it in a way that is not only accurate, but also easy to access and understand.

The study of mental categorization and related cognitive processes has been prevalent in both sociology and psychology. It has been argued that categorization is a basic cognitive process (Lenneberg, 1967; Gyori, 2013). This process allows us to contextualize our surroundings. Jean Piaget (1952) concluded that we organize our thoughts, behaviors, and experiences into "schemes" (or systems) that allow us to make sense of the world around us. As we are presented with new experiences and more information, we create categories to divide it into smaller groups that we can understand. But these categories do not always reflect the actual facts of the external world. Instead, they are formed to create a functional and adaptive structure of reality (Gyori, 2013). We create distinct mental clusters that fit our sociological perspective, instead of identifying pre-existing natural ones (Zerubavel, 1996).

Sociologist Eviatar Zerubavel (1991) identifies two cognitive acts that are essential for mental categorization and classification – lumping and splitting. We use these processes to create "discrete chunks" of experiences and information. Lumping refers to the practice of grouping things that are perceived as similar together. We form "single mental clusters" by grouping similar things together; where the perceived similarity of the constituent elements outweighs the differences among them (Zerubavel, 1996). Because we strengthen our perception of the similarity and connection between these elements, we are likely to see them as "interchangeable variants of a single unit of meaning" (Zerubavel, 1996). On the other hand, splitting refers to the practice of separating things that are perceived as different - exaggerating the perceived differences among them at the intercategorical level (ibid.). This can explain why we perceive grape juice as similar to orange juice, but very different from wine – even

though they are derived from the same fruit (ibid.) Together, these two complementary processes allow us to create “islands of meaning” in seas of stimuli (Zerubavel, 1991).

Zerubavel (1996) goes on to argue that when we are examining what separates clusters from one another we experience “mental quantum leaps.” We perceive the change from December 31st to January 1st as much more significant than the change from January 1st to January 2nd, but in reality they are exactly the same. Similarly, someone who is 18 is considered an adult, and is more likely to be associated with a 30-year-old than a 16-year-old (ibid.). Our splitting of relationships, age, the law, and time clearly demonstrates this “leap.”

#### Wine Ratings

Classification and categorization is present throughout time and space, and is not just a sociological construct. These categories are at the forefront of our understanding, and effect all aspects of our world. It is possible that this process of categorization may have important implications for economists in regards to their study of the wine industry (Zhao, 2005; Gokcekus & Finnegan, 2014).

Wine ratings are provided as points within a range. For example, both Robert Parker and the Wine Spectator use a 50-100 point scale. However, a quick observation of prices at a wine store clearly demonstrates that wines with ratings of 90 and above are clearly marked (while others are not). This indicates an active marketing strategy of differentiating those wines from others. In other words, lumping and splitting a la Zerubavel seems to describe the distinction between wines exhibited in stores. Yet, when determining the effect of wine ratings on prices, economists have treated these ratings as if they compose a constant continuum with each point equidistant from the proceeding and following one (Jones & Storchmann, 2001; Hadj Ali & Nauges, 2007; Hadj Ali, Lecoq & Visser, 2008; Dubois & Nauges, 2010; Gokcekus & Finnegan, 2013).

It is clear that wine ratings are treated much differently by economists than they are by the wine stores. In order for economists to accurately analyze wine ratings’ effects on wine prices, they may need to change their methods by considering the presence of lumping and splitting.

#### Hypotheses

Basing our research on classification literature in sociology, in this study, we examine whether or not lumping and splitting plays a role in how ratings affect prices.

Hypothesis 1: Price setters ‘lump’ wines rated below 90 and wines rated 90+ into two discrete groups, i.e., mental clusters. Wines are ‘split’ at the 90 rating. In terms of consumer preference, a wine ranked 92 is considered to be similar to a wine ranked 93, and a wine ranked 88 is considered to be similar to a wine ranked 89. However, a wine ranked 89 is perceived as significantly different from a wine ranked 90.

Hypothesis 2: The effects of categorization on prices are quite different: In each category, (a) directly, additional points, and (b) indirectly, single vineyard premium and regional reputation premium differ.

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# Lumping and Splitting” in expert ratings’ effect on wine prices

*Omer Gokcekus and Samin Y. Gokcekus*<sup>1</sup>

*“There are in Paris scarcely fifteen art-lovers capable of liking a painting without Salon approval. There are 80,000 who won’t buy so much as a nose from a painter who is not hung at the Salon.” Pierre-Auguste Renoir*

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