

Ithaca 2018 Abstract Submission

Title

Measuring Inflation Rates of Five US Income Groups from 1948 through 2017 Using a Stable Consumable Good: Champagne

I want to submit an abstract for:

Conference Presentation

Corresponding Author

Paul Merton

E-Mail

pmerton@ethoswines.com

Affiliation

Ethos Wines Group, Inc.

Keywords

champagne, inflation, Stable Consumable Goods

Research Question

How shall we measure inflation?

Methods

Studying the measurement of inflation using champagne as a prime example of a Stable Consumable Good. Multiple time series of different champagnes, price-relative to hours worked.

Results

Inflation rates measured for different income groups are materially different from the CPI and each other.

Abstract

A Stable Consumable Good (SCG) over a specified time period is a product that is identical in what it is and what it is used for, at every point in time during the period. Champagne is a SCG product and mobile phones, computers, and cars are not.

Inflation is the change in price for the identical product or service and used for the identical purpose between two different dates. When comparing the prices of a SCG at two points in time, one is comparing the identical product in an identical use and therefore that satisfies what is needed to measure inflation. The question is what price should be used at each of those times to measure inflation. That depends on the question to be answered---inflation for whom or relative to what.

From 1948 and 2017 champagne is a SCG because the production process of champagne has essentially been unchanged for the entire 69 - year period of this study. and the output of the finished product approaches the limit of being an absolute constant. This study utilizes nine (9) SCG that are champagnes. There are three (3) brands and each of the brands has three (3) tiers or price levels. An entry - level non-vintage, a vintage, and a top of the line flagship.

The Flagship bottles from each of the producers may vary in their relative quality from vintage to vintage, but the Flagship bottle of a vintage is - by definition the best quality champagne produced from that year's harvest. In the case of entry - level (non-vintage) bottles the relative quality is even more consistent because of the very nature that the wine is a blend from multiple years' harvests and has the goal of its production to be a near constant

product that customers buy with confidence.

Champagne, an effervescent alcoholic wine has been used primarily for the same purpose over the entire period, to mark special occasions and celebrations.

The SCG has a clear consumable attribute in so far as once it is used, or consumed it ceases to exist. The packaging may continue to exist, but this is considered separate or at least a component of the original good. So as if there were two identical SCG products side by side and one of them is consumed and as a consequence ceases to exist and any remaining packaging decreases in value relative to the SCG product that remains fully intact.

A SCG is useful for measuring inflation in terms of the cost of acquiring the SCG for any two dates within the 1948-2017 study period, the champagne of that year is made the same way and its functionality is the same. Thus comparing it at any two points in time is a valid inflation measure because it is identical. The price paid for the champagne has to be measured in units appropriate for the question one wants to answer. If we are interested in the price of champagne [SCG] in comparison to a bundle [cross - section] of consumable goods then CPI should be used. If we are interested in the inflation measured in terms of how much a 40 percentile worker must give up at each point in time, then we use a fraction of a total work day - measured in disposable income work hours. As we shall show, the inflation rates measured for different income groups or with respect to other consumption goods can be quite different and so no one measure of inflation is adequate to answer all questions.

To measure the inflation relative to other goods Consumer Price Index (CPI) is used. To measure the inflation relative to hours of work required to buy a bottle based upon after tax incomes and sales taxes are applied to retail store pricing. Using five (5) different US income groups we find that not only for each group different than CPI inflation, but that it differs depending on the SCG and on the income bracket.

In short, to measure inflation correctly you have to specify what the measurement is being used for. There is no one measure for inflation.

Champagne is a good strategic research site for studying inflation because we want to keep the product that is being produced as constant as possible. Champagne is very highly structured and traditional wine production methods are maintained strict conditions that are maintained by tradition and regulation. Champagne as an alcoholic beverage continues to be best known for and continued to be used for celebratory occasions. This makes an excellent case for an empirical study of inflation for the same good and the same use over this 69 - year study.

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