Using Regression Discontinuity to Assess the Value of Firm and Geographic Reputation for Sparkling Wines

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Indicators of quality such as reputation become important to consumers when the quality of a product is not observable until after it is consumed. For example, the primary indicators of quality for sparkling wines are believed to be the firm's reputation and the geographic region from which the wine was produced. This is of particular interest in the wine industry where labels such as Champagne and Port have been used to indicate the type of product rather than the region of its production. If these labels provide a meaningful signal of collective reputation to the consumer, we would expect that sparkling wines falsely labeled Champagne would receive higher prices (from exploiting the collective geographic reputation) than comparable products labeled only as sparkling wine. My analysis employs the hedonic price method with regression discontinuity (RD). That is, I compare the price of wines of the same quality (number of wine points) and control for other factors that affect the price such as vintage, region, country, and producer.