How Much is an Appellation Worth?
A Contingent Valuation Assessment Method
Alessandro Corsi (alessandro.corsi@unito.it)
Dept. of Economics, University of Turin (Italy)

In this paper a method is proposed for assessing the value attached to an appellation. Contingent valuation methods (CVM) are widely used for assessing the value of environmental goods for which markets do not exist. In a nutshell, CVMs are based on asking in appropriate ways hypothetical questions to respondents to elicit their willingness-to-pay (WTP) for the relevant good. To assess a priori the value of an appellation that does not yet exist, a similar hypothetical situation can be proposed to respondents. Conversely, for already existing appellations, an hypothetical wine without the appellation can be proposed.

The main difference with usual CV exercises concerning environmental goods is that for them WTP is measured as the lump sum which makes the respondent indifferent between the lower quality (or smaller quantity) of the environmental good and a basis income level and the higher quality (or larger quantity) and income lowered by that sum (i.e., the equivalent or compensating surplus). By contrast, when dealing with a market good like wine, consumers can react to quality changes by adjusting purchased quantities. Actually, WTP expressed in terms of price is contingent on the purchased quantity. Therefore, asking “which price would you pay this wine if it were an appellation wine?” with no further qualification leaves the quantity issue undetermined.

The methodology proposed is based on an elicitation question asking respondents whether for a bid price they would buy the same, a lower or a larger quantity of the relevant wine they are presently buying if it showed an appellation. For an already existing appellation wine, the question would be whether they would buy the same, a lower or a larger quantity of the wine if it were not guaranteed by an appellation.

Through ML methods, a difference-in-expenditure equation can be estimated, i.e., the difference in the minimum expenditure needed to reach the reference utility level with and without the appellation. From this equation, the reservation price of the appellation wine (if not existing) or of the no-appellation wine can be estimated. Moreover, though a complete demand equation cannot be estimated with this method, the share of likely buyers of the new wine at any price level can be estimated. In addition, the (standardized) welfare change induced by the introduction of the appellation can be estimated.