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### Quality, Reputation and the Price of Wine

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The existing empirical literature on the determinants of wine prices emphasizes the importance of dynamic interactions between quality and reputation, i.e. an increase in reputation may be the consequence of high product quality in the past. On the other hand, the potential danger of endogeneity and especially sample selection issues are usually not addressed. Based on a unique panel data set for more than 300 wineries over the period of 2004-2007, our hedonic analysis decouples the direct (short-run) and the indirect (long-run) effects of product quality on prices in the Austrian market for bottled domestic premium wines. By explicitly accounting for the endogeneity of wine quality (based on the grades given by the Falstaff wine guide) and reputation, we apply an estimation procedure that corrects for a potential sample selection bias. Our results suggest that the proposed approach is superior to specifications ignoring self-selection and assuming exogenous quality and winery reputation. While influencing reputation positively over time, wine quality is found to have a significant effect on prices simultaneously. Consequently, short- and long-run price effects of quality can be quantified, which might be of great relevance for stakeholders in the wine industry.

Keywords: hedonic pricing, wine quality, reputation, endogeneity, sample selection

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