Experimental economics

Risk taking when buying wine

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An experimental investigation

1. Risk and risk aversion
2. There is more than the price of wine in a bottle
3. The context of the experimental investigation
4. The preliminary results

Risk and risk-aversion

- Asymmetric information
  - Purchasing wine is clouded with insecurity (Gluckman 1990)
  - Purchases involve risk-aversion (Mitchell and Greatorex 1988)
- Risk include
  - Financial
  - Social
  - Functional (taste, quality)

The price of wine

- What drives market prices? (Jones and Storchmann 2001, Lecocq and Visser 2006)
- Segmented markets (demand as a function of price)
- Price as an indicator of quality (demand influenced by price)
An experimental investigation: the context (1)

Buying wine in a tax-free zone of an airport

There is always a functional risk (a corked wine for example)

An experimental investigation: the context (2)

Situation 1: there is no possibility to hedge the potential loss
Situation 2: there is a possibility to buy an insurance contract

- Subjects are required to indicate whether they accept to buy $L$ dollars a bottle of wine against the functional risk of buying a corked bottle and losing $L$ dollars

7 questions with wines valued from $5 to $500
There is no right or wrong answer … a statement of preference

The risky prospect

- The risky prospect is suggested by a case of 12 bottles
- You want to buy a bottle of wine from this case
- Experiments with students (HEC Montréal, Aarhus University, Université Montesquieu-Bordeaux, University of Economics in Prague)
- Small sample for each experiment (16-33)

Example of questions

- 1st experiment: the effect of price on demand
  You want to buy a bottle of wine valued $10 for which you don’t know if there is a possibility that you may buy a corked bottled. Do you buy this bottle?

- 2nd experiment: a risky prospect
  You want to buy a bottle of wine valued $10 for which you know that for sure there is one corked bottle in the case of 12. Do you buy this bottle?
**Samples**

- **HEC Montréal**
  - sample sizes between 22 and 31
- **Univ. Montesquieu-Bordeaux**
  - sample sizes between 31 and 33
- **Aarhus University**
  - sample sizes between 16 and 17
- **University of Economics in Prague**
  - Sample sizes between 26, 29 and 72

**Additional question**

- If you buy a bottle of wine when you are invited by friends to a dinner, how much would you usually spend? ________ 
  - **Univ. Montesquieu-Bordeaux**
    - $13.8 and $15.2
  - **Aarhus University**
    - $13.3 and $17.5
  - **Univ. Prague**
    - $11.1, $11.6 and $12.7

**Does the risk matter?**

Figure 1: The demand as a function of price with and without a risky prospect (HEC Montreal, sample size = 28 and 22)

**Does the sample matter?**

Figure 1: The demand as a function of price with and without a risky prospect (University of Montesquieu, Bordeaux, France, sample size = 31 and 33)
Does the price range matter?

Figure 1: The demand as a function of price with and without a risky prospect (Aarhus University, Denmark, sample size = 16 and 17)

Another cultural background

Figure 1: The demand as a function of price with and without a risky prospect (University of Economics, Prague, sample size = 26 and 29)

Insurance coverage is available

- There is an insurance policy to reimburse your purchase if the bottle is corked. The probability of loss is held constant (1/12) and the price of insurance is the expected loss loaded by 20%.

Insurance coverage is available

- Another example
Questions

- Is there an inflexion point?
  - Quality and price are linked. Price is used to reduce the risk of a poor buying decision (Veale and Quester, 2008)
  - “You get what you pay for” (Lee and Lou 1996)
  - A non-linear relationship (Horowitz and Lockshin 2002)

Conclusion

- Importance of the context … insurance oriented rather than gamble
- Situation … rare event/large loss
- Some evidence of risk-taking when buying wine
- Limitations:
  - Small sample size
  - Replication in a different cultural environment

Risk taking when buying wine

Thank you for your attention and comments

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