Consumer's Activism: the Facebook Boycott of Cottage Cheese: by Hendel, Lach and Spiegel

discussion by
Steven Berry, Yale Economics

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Idea of Paper

Perceived high prices led to a massive Israeli political movement, going well beyond cottage cheese. There was a serious threat of government regulation, distinguishing this from many other "boycott" cases and papers.

Broader topic: will firms consider political pressure when setting price, addition to marginal cost & marginal revenue (demand elasticities)?

I find the broader topic—about politics, the threat of regulation and prices—quite interesting.

Political Threat

There is a small literature on pricing under threat of regulation.

- Supposedly, Japanese auto makers set high prices in the face of threats of tighter "voluntary" export restraints in the 1980s.
- Ellison and Wolfram (2006) on price restraint in pharmaceutical prices, in response to political threat of 1990s health reform.

Sometimes there is political "compromise"

- 19^{th} century US railroad regulation

Both "Effects" and Models

The evidence on price changes in pretty convincing. Why do we need a model? To look at

- price elasticity effect (direct effect) vs.
- political threat (indirect effect)

An Aggregate Demand System

I agree with the following:

> *While the purchase decision at the household level is a discrete choice–how many units and what brands to purchase–in the absence of consumer level data, we can only estimate an aggregate demand system . . . Discrete choice modeling is handy when the choice set is large, requiring many parameters to be estimated . . . In our application the choice set is . . . only six products*

Therefore, the authors directly estimate a simple aggregate (constant elasticity) demand system. Not *too many* parameters, but will we have sufficient instruments for even 9 own and cross-price elasticities?

Price Endogeneity

Usual issue here: what is moving prices, conditional on brand and day effects? Left out supply factors or demand factors?

There aren't great instruments here, particularly to measure (say) 9 own and cross-price elasticities. Maybe input prices? Dummies for regulation and post-reg/pre-boycott periods? But these aren't brand specific. "Hausman" instruments (prices in other cities) suffer from the usual problem of possibly correlated demand shocks.

Price Endogeneity—cont

To estimate demand via OLS, we need to assume that

- the demand error is independent over time and observed *after* prices are chosen,
- there are excluded supply shifters, even if not observed, that move price conditional on all demand factors.

Is there national/region advertising? Weather effects? Trends?

Possible Shifters of Price

The authors might take a stronger stand as to what are the unobserved supply shifters that explain why prices move (conditional on x), but don't move with the demand error.

For the latter point, consistent with the paper: randomly timed sales. As the authors note, this may lead OLS to *overstate* elasticities, but is it hard to say how it will effect pre- and post-boycott *differences* in elasticities.

Lower Elasticities

It is interesting that demand becomes more elastic, even though this is not the biggest effect of the boycott. Evidence for the effectiveness of "morally based anti-advertising"?

On the other hand, the price elasticity effect is not that big and relying on the threat of regulation seems unfortunate. Could we model entry? Is there any natural divestment of products?

Demographic Effects

Nice to see that more "connected" households participate more in the boycott and (perhaps) also become more elastic.

Are these the most politically important households as well?

This seems to limit the range of issues that can be addressed in this way.

Are there any policy alternatives to threatened regulation?

Could the authors model divestment or entry?

The Shadow Cost of Policy

- The paper notes: backing marginal cost out of first order condition requires the correct model of behavior.
- Here, the policy is missing from the foc
- Some papers model a "shadow cost" of policy (as from a quota), and this enters the f.o.c. directly. Could we do anything similar here?

Coordination?

An interesting question is whether the firms are undertaking a unilateral best response to the political threat, or are implicitly coordinating.

Small v. Large Firms?

Social Media and Regulation More Generally

- Can social media "action" change the threat of political regulation more generally? Only when there is a "legitimate" grievance in the eyes of the regulator, or even when not?
- What about mobilizing to prevent regulation?
- "Airbnb and Uber Mobilize Users on Policy," NYT yesterday

What "political frame" will make for effective political action regarding regulation?

Conclusion

- Convincing empirical results
- More evidence on the threat of future regulation influencing current prices, even without monopoly.
- Are there other solutions for controlling retail markups in an small country / oligopolistic environment? Trade policy?