“A Simple Model of Demand Anticipation”

2/17/11, 3:00 p.m. in Room 741 JMHH

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ABSTRACT

In the presence of intertemporal substitution, static demand estimation yields biased estimates and fails to recover long run price responses. Our goal is to present a computationally simple way to estimate dynamic demand using aggregate data. Previous work on demand dynamics is computationally intensive and relies on (hard to obtain) household level data. We estimate the model using store level data on soft drinks and find: (i) a disparity between static and long run estimates of price responses, and (ii) heterogeneity consistent with sales being driven by discrimination motives. The model's simplicity allows us to compute mark-ups implied by dynamic pricing.