

# Chapter 1

## Consumer demand

Economists have long been interested in estimating the demand for goods. Many reasons motivate estimation of demand, including: 1) Predicting consumption to changes in tax, prices, quality; 2) Describing demand; 3) Forecasting; 4) Policy analysis; 5) Welfare studies; 6) Testing consumer theory. Interest in demand is not unique to scholars. The Economics Research Service (ERS) of the United States Department of Agriculture (USDA) invests significant effort into estimating demand for food commodity to conduct policy analysis. Private firms may also estimate demand to improve the marketing of their products or develop pricing strategies.

### 1.1 Econometric problems in estimating demand

Empirical results are conditioned by choices made by the econometrician. In general, parameter estimates and test results are conditioned by choices regarding the type of data, the functional forms, dependent variable and restrictions on the parameters. There is no getting around making choices when estimating an econometric model; this is true not only when estimating a system of demand but for any econometric estimation. Estimates are sometimes (very) sensitive to these choices which then makes credible inference difficult. A meta-analysis collects data to show how estimates vary according to methodology or type of data. An example of meta-analysis is Gallet (2010) who looks at estimates of the demand for meat.

Leamer (1983) warns that economists rarely have access to experiments and that identification is difficult. The data generating process is unknown and results may be sensitive to functional form choices. Alston and Chalfant (1991) make similar comments and note that inferences in studies of demand are fragile to specification choices.



# Bibliography

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