



Finance and Economics Discussion Series: Prices, Production, and Inventories Over the Automotive Model Year (Paperback)

By Adam Copeland

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.This paper studies the within-model-year pricing and production of new automobiles. Using new monthly data on U.S. transaction prices, we document that for the typical new vehicle, prices typically fall over the model year at a 9.2 percent annual rate. Concurrently, both sales and inventories are hump shaped. To explain these time series, we formulate a market equilibrium model for new automobiles in which inventory and pricing decisions are made simultaneously. On the demand side, we use micro-level data to estimate time-varying aggregate demand curves for each vehicle. On the supply side, we solve a dynamic programming model of an automaker that, while able to produce only one vintage of a product at a time, may accumulate inventories and consequently sell multiple vintages of the same product simultaneously. The profit maximizing pricing and production strategies under a build-to-stock inventory policy imply declining prices and hump-shaped sales and inventories of the magnitudes observed in the data. Further, roughly half of the price decline is driven by inventory control considerations, as opposed to decreasing demand.



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