Industrial Organization Papers

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All models are wrong, but some are useful.

Contents

Chapter 1 Berry, S. T. (1994). Estimating discrete-choice models of product differentiation.

Based on

- Berry, S. T. (1994). Estimating discrete-choice models of product differentiation. *The RAND Journal of Economics*, 242-262.

1.1 Problem

The problem of estimating supply-and-demand models in markets with product differentiation.

1.2 What's New?

1. Discrete-choice model.
2. Unobserved demand factors are considered.
3. Estimation by "inverting" the market-share equation to find the implied mean levels of utility for each good.

Note ***The problem of previous empirical model:*** *a system of N goods gives N^2 elasticizes to estimate.*

This paper put some structure based by making assumptions on consumer utility. It uses the aggregation of consumers' individual choice to estimate demand.

1.3 Model

Data: The econometrician is assumed to observe the market outcomes of price and quantities sold by each firm.

1. There are R independent markets.
2. There are N_r firms in market r, with each firm producing one product.