Inside the White Box: Unpacking the Determinants of Quality and Vertical Specialization

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Abstract

We empirically assess the determinants of quality differentiation both from a demand and supply side perspective relying on product-level quantity and price data. We focus on one specific industry with wide scope of vertical differentiation (refrigerators) across 23 EU markets. Unlike the previous attempts in the trade literature aiming at inferring product quality from consumers’ behaviour over product bundles, we follow individual product models over time. This allows us to link their intrinsic quality to objective attributes that carry a clear vertical ordering, and to study patterns of nonhomothetic behaviour by consumers. For our supply-side analysis, we assemble an original dataset that uniquely identifies the country of location of the plant where each specific model is produced. Equipped with this data, we study the location patterns chosen by brands with multiple plants in multiple countries. Our results show that brands tend to locate the production of their higher-quality models in richer countries. We argue that this location choice reflects mainly a home-market effect driven by nonhomothetic preferences along the quality dimension.

Professor Esteban Jaimovich is currently Reader in Economics at the University of Surrey. His main research interests are in International Trade and Development Economics, both as an applied theorist and as an empirical economist. His work has been published in a number of international journals, like the Journal of European Economic Association, Journal of International Economics, Journal of Development Economics, European Economic Review, among others.

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Location
Webinar

Language
English

Registration
- Free seminar
- Registration to dem@uni.lu
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