



The Cost of Ignorance: Reputational Rents in the Market for Tuscan Reds.
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It is well established that the price of wine reflect intrinsic and objective qualities and characteristics of the wine. We show, however, that there is price discrimination, in the sense that wines with identical characteristics as revealed by expert judgments, do not necessarily obtain the same price. There is in fact a systematic and strong bias in that old and well established denominations obtain a significantly higher price compared to wines from new denominations, when characteristics and quality are held constant.

We advance the hypothesis that consumers are only imperfectly informed about the quality of individual wines – individual here means the wine from a particular producer in a given territory - but have reasonably good knowledge about the mean quality of well known denominations. Furthermore consumers tend to downgrade denominations they have not heard of or heard of only recently. Consumers approximate the quality of an individual wine to that of the mean of its denomination and believe well established denominations to have higher average quality compared to new ones. Therefore consumers pay less for wines in a new denomination compared to wines in an older denomination even when it is not motivated by actual quality differences.

Tuscan reds are particularly well suited for an analysis along the lines suggested above. First grape varieties are fairly homogenous. The DOC or DOCG reds in Tuscany will be wines made from clones of Sangiovese, which can differ locally, to which other, mostly local grapes are in added in smaller proportions. In this study we only include wines made predominantly from Sangiovese. Furthermore Tuscany has a wide variety of regionally separated denominations, some of which are quite old and some of which were formed recently. The oldest of the ones we investigate here is Chianti Classico, which was first formed in the 1920s while the youngest are from the Grosseto province, La Maremma Toscana, west of the Siena where Montecucco and Monteregio di Massa Marittima were established in the late 1990s while Morellino di Scansano was established in the late 1970s. The highest ranking denomination, both in terms of price and quality in the sample is Montalcino which was formed 1968. The so-called 'Super Tuscans' and Bolgheri doc are not included in the analysis because they are not made primarily of local varieties of grapes and are therefore not comparable to the Sangiovese based wines. The data set include a quality assessment of some 500 wines from a well known Italian wine guide (I Vini di Veronelli, the 2007 edition) which is adhering to the Parker system. The quality assessments range from 84 to 95. Prices are reported in intervals which we have translated to averages within each range.

We show that the shape of the quality distribution over individual wines differ between new and old denominations in that the mean quality is higher in the old denominations. Since denominations generate a sort of public good there is a tendency of individual producers to free-ride. We investigate the incidence of free-riding in the following way: the more serious the incidence of free riding the weaker will the positive relationship between price and quality become in a given denomination. The most striking result is, however, the large price difference between wines from old denominations, in particular Brunello di Montalcino, and the new Grosseto province denominations, quality held constant. The premium paid by consumers for a Brunello di Montalcino compared to a Morellino di Scansano, both ranked at Parker 90, amounts to € 20 which is what a good wine guide costs. The costs to consumers of their ignorance is remarkable.