

What Determines the Future Value of an Icon Wine? New Evidence from Australia

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May 2003

Paper for the Oenometrics IX Conference, Budapest, 22-24 May 2003. An earlier version was presented as an Invited Paper for the Australian Conference of Economists, Adelaide, 1-3 October 2002. Thanks are due to Orley Ashenfelter of Princeton University for inspiring this research, to Langton's Fine Wine Auctions for access to their database, and to the Australian Research Council for financial support.

The work on this paper was completed while Danielle Wood was a student at the University of Adelaide. The views are the authors' own and in no way reflect the opinions of the Productivity Commission.

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Abstract

The Australian wine auction market is characterised by large variations in price between different vintages of the same wine, relative to the initial release prices of those wines. This paper addresses the question: to what extent can we anticipate the future price of such icon wines from information available at the time of release? A hedonic model is estimated to explain the variation in the secondary (auction) market price between different vintages of four icon red wines. We show that weather variables and changes in winemaking and grape growing production techniques, along with the age of the wine, have significant power in explaining the secondary market price variation across different vintages of each wine. The results have implications for winemakers in determining the prices they pay for grapes and charge for their wines, and for consumers/wine investors as a guide to the quality of immature icon wines.

Key words: wine quality, investment under uncertainty, hedonic pricing model

JEL codes: C23, D12, D44, D80, G12

