



**Who pays broker's commissions?
Evidence from fine wine auctions**

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Economists provide a straightforward analysis of the incidence of a cost or tax change upon the selling price of a good and the “take home” price for the producer. However, empirical tests of incidence are usually difficult due not only to limits on data availability but also to the lack of natural experiments that allow us to observe the difference in prices paid by buyers or revenues of sellers in identical markets facing different costs (e.g., tax rates). The incidence issue is, of course, a pervasive phenomenon that applies to contexts other than taxes; the application of interest in this research is brokers’ commissions. Like taxes, brokers’ commissions are added to prices in a variety of markets (e.g., real estate); incidence analysis then asks, among other things, the extent to which the transaction price adjusts to reflect the commission.

This research exploits a unique data set from a somewhat more exotic market, namely, the auction of fine and rare vintage wine. It studies over six thousand observations of auction transactions for red Bordeaux wine from two auction houses that operated for several years in Chicago, serving ostensibly the same market and selling essentially identical wine in many transactions over the same time period (the 1995-6 auction season) but with a 10-percentage point difference in the buyer’s commission rate. The hypothesis is that the difference in “hammer prices” realized by the two houses will reflect the difference in the commission rates. Preliminary econometric results provide some support for the hypothesis. One of the complications of the analysis is that the lots auctioned by one of the houses came, in part, from its own inventory rather than simply from consignments so that its supply of lots could be considered endogenous. The current analysis addresses this issue by using two-stage estimation to test whether the preliminary evidence of complete shifting of the commission differential persists.