Interfaces between Marketing and Economics: Prefatory Note

All the papers appearing in this supplement to the *Journal of Business* were presented at a conference held at the University of Rochester on April 7 and 8, 1978. The conference brought together leading researchers in marketing and economics who have been investigating problems in the areas of consumer behavior, product policy, advertising, and pricing. While both marketers and economists have often examined the same phenomena, they have done so employing different perspectives and methods of analysis. The purpose of this conference was to create better understanding of these different perspectives among both groups of scholars and to indicate mutually fruitful avenues of conducting research on problems of common interest to both marketers and economists.

Each paper was formally discussed by a marketer and an economist. The discussants' comments were followed by a general discussion (by all participants) of the paper and the general topic area of the paper. A brief summary of the contents of the papers presented at the conference is provided below.

The first session of the conference dealt with consumer behavior and contained papers by Daniel McFadden ("Econometric Models for Probabilistic Choice among Products"), Albert Madansky ("On Conjoint Analysis and Quantal Choice Models"), and Daniel Kahneman and Amos Tversky ("Some Recent Studies of Choice under Uncertainty"). McFadden's paper consisted of a review of the literature on probabilistic choice behavior and a discussion of the latest theoretical developments and estimation techniques available in the area. Madansky's paper provided a theoretical comparison of the similarities and differences between conjoint analysis and quantal choice models, two approaches being used increasingly in marketing. The Kahneman and Tversky paper started by presenting some evidence which appears to be inconsistent with some of the assumptions of expected utility

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theory. The authors then presented a new theory of choice under uncertainty, called "prospect theory," which appears to explain some of the empirical inconsistencies discussed earlier in the paper.

The second session dealt with product policy and contained the papers by Frank Bass ("The Relationship between Diffusion Rates, Experience Curves, and Demand Elasticities for Consumer Durable Technological Innovations") and Kelvin Lancaster ("Competition and Product Variety"). In the context of a new product diffusion model, Bass incorporated the notion of declining costs and prices as a result of the learning obtained from a firm's cumulative experience in producing a new product. Bass then analyzed the effect of these declining prices on the diffusion process and presented some empirical results from applying the model to several consumer durables. Lancaster's paper consisted of a theoretical model which dealt with the degree of product variety that will be optimal in a product class or will be generated by the market. The model also analyzed how this degree of product variety differs for different market structures.

The third session dealt with advertising and contained papers by Vinod Verma ("A Price Theoretic Approach to the Specification and Estimation of the Sales-Advertising Function") and Louis Wilde ("The Economics of Consumer Information Acquisition"). Verma's paper contained a theoretical approach to specifying the sales-advertising relationship. Verma started with a model of a utility-maximizing individual (based on Becker's household-production model) and showed how advertising affected this individual. Based on this model of the individual consumer, Verma developed a sales-advertising function that could be estimated using aggregate sales and advertising data. Wilde's paper started by reviewing the economics literature on consumer information acquisition, in particular, the work of Stigler and Nelson. He then reformulated Nelson's model by applying the concepts of search and experience to attributes rather than goods (as is done by Nelson) and showed how such a reformulation eliminates some of the difficulties with Nelson's analysis.

The final session of the conference dealt with pricing and contained the papers by John Gould ("Economics of Markets") and John Little and Jeremy F. Shapiro ("A Theory for Pricing Nonfeatured Products in Supermarkets"). Gould developed a simple model to explain when markets (i.e., the opportunity for two entities to get together for trading purposes) are formed. He then showed how the model could explain why some markets have fixed prices (e.g., restaurant menus) while others have constantly varying prices (e.g., art auctions), why brokers and middlemen are needed for some markets but not for others, and so forth. Little and Shapiro's paper developed a method for pricing most of the 6,000 products in an average supermarket which are not offered at a deal price. Little's method is geared to finding a set of prices such that for a given level of store profit, no other set of prices will permit higher consumer utility and, conversely, for a given level of consumer utility, no other prices will permit higher store profit.

The conference was sponsored by the Managerial Economics Research Center of the Graduate School of Management, University of Rochester, and was organized by Dan Horsky and Subrata Sen. The editors of the *Journal of Business* had been approached earlier regarding the possibility of publishing the conference proceedings. At the time of the conference, they decided to publish a special issue of the *Journal of Business* that would be devoted to the conference and would be jointly edited by Dan Horsky, Subrata Sen, and two of the regular editors of the *Journal of Business*, John Gould and Albert Madansky. The current issue is what emerged, and it is hoped that it will serve to disseminate the results of the conference to a wider audience and encourage further research on the application of economic theory to the solution of marketing problems.

In addition to the papers listed in the table of contents of this issue, Daniel Kahneman (currently at the University of British Columbia) and Amos Tversky (currently at Stanford University) presented their paper, "Some Recent Studies of Choice under Uncertainty," in the first session of the conference. The Kahneman/Tversky paper could not be included in this issue because it had already been accepted for publication in *Econometrica* (March 1979, pp. 263–91). Steven Shugan (University of Chicago) and Richard Thaler (Cornell University) were the formal discussants for the Kahneman/Tversky paper. In addition, the following individuals participated in the conference in the role of discussant or a session chairman: Robert Blattberg (University of Chicago), John Farley (Columbia University), Paul Green (University of Pennsylvania), Richard Schmalensee (Massachusetts Institute of Technology), Leonard Simon (Community Savings Bank), Yoram Wind (University of Pennsylvania), and Arnold Zellner (University of Chicago).

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