



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Chapter 12:

**Product Quality and the Demand for Food:
The Case of Urban China**

**DIANSHENG DONG
BRIAN GOULD**

University of Wisconsin

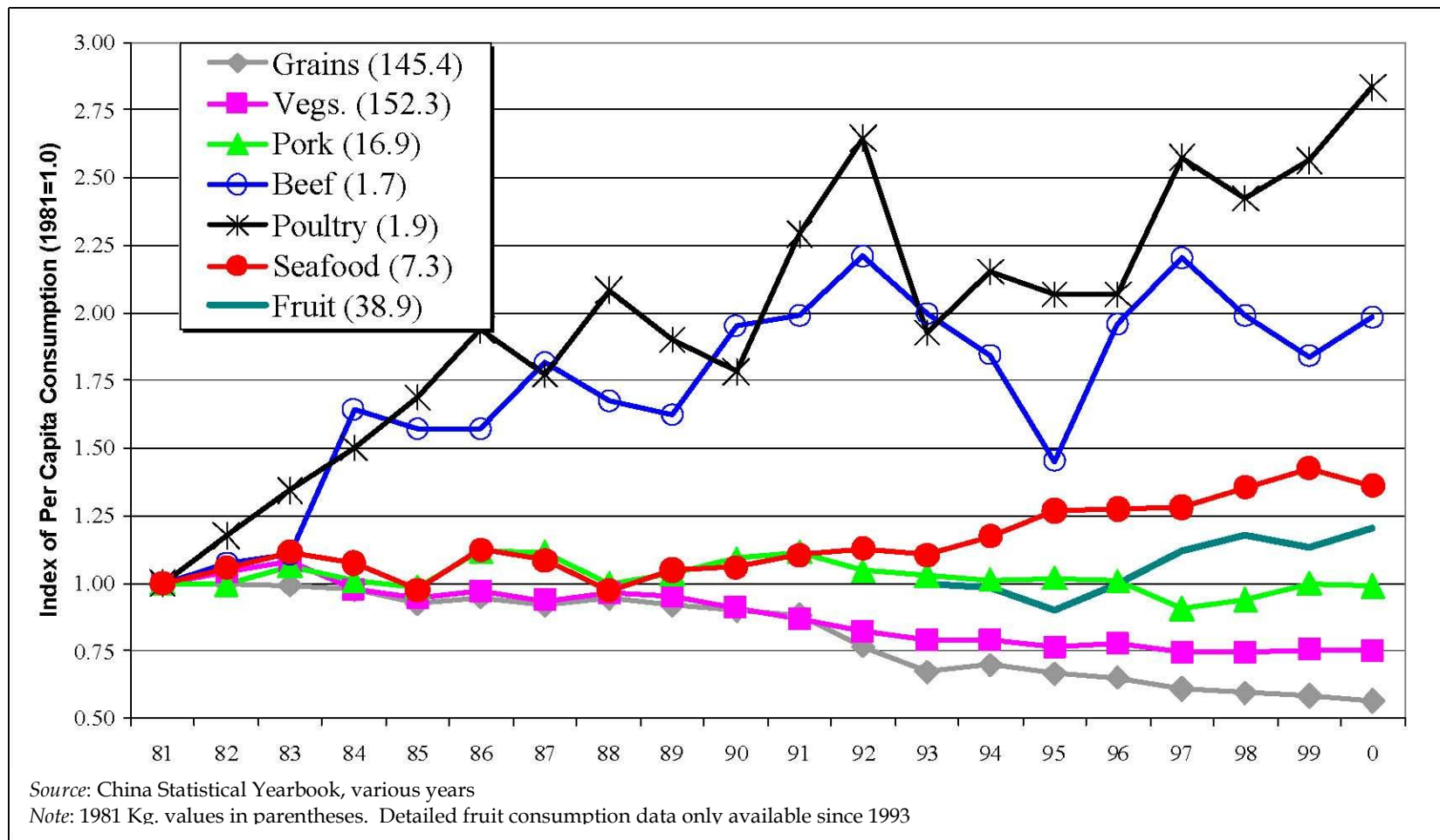
Chapter 12:**Product Quality and the Demand for Food:
The Case of Urban China*****Introduction***

Eating patterns of the Chinese have been undergoing significant change due to a variety of factors including: a change in the degree of government participation in the food system, increased affluence of urban households and China's recent admittance into the WTO (Gale, 2003; Wang, 1997). As China continues to develop there is general consensus that there will be movement of the Chinese diet away from the traditional (Gao, et al., 1996; Guo, et al., 2000). With rising incomes it is projected that the Chinese population will diversify their diets away from staples such as rice and wheat flour, to one containing more livestock products (Shono, et al., 2000; Gale, 2003). Besides changes in the quantity of products purchases, Hsu, et.al (2001) note that it is important to recognize that demand for product quality will become an increasingly important component of the food purchase process. For example, with higher incomes, one would anticipate an increase in the demand for ready-to-eat at convenience, nutritionally enhanced, and alternatively packaged foods.

With Chinese markets becoming more open to foreign sources of raw and processed food products and anticipated annual GDP growth rates of about 10%, it is important that food manufacturers and traders obtain a better understanding of the determinants of food expenditures in China. Such information is valuable to potential exporters of agricultural products as well as to multinational firms looking to expand into the Chinese market. The expansion of McDonalds, Pizza Hut and Wal-Mart into the Chinese market provides examples where information as to the evolving structure of local food demands is essential to more effectively targeting their marketing efforts.

The changing pattern of food consumption in urban China can be obtained from Figure 1. From this figure we see that over the last two decades the consumption of poultry and beef have nearly tripled and doubled, respectively. The consumption of pork is nearly the same as in 1981 while grain consumption has decreased by more than 45%. Per capita fruit consumption has increased by 25% over the 1993-2000 periods.

Figure 1: Recent Patterns of Per Capita Food Consumption in Urban China, 1981-2000



There are a variety of methods that can be used to quantify the determinants of food demand in China. Banks et al. (1996) assert that a demand system approach based on some underlying utility function is preferred over single equation approaches given their theoretical consistency. In the present analysis we use the quadratic almost ideal demand system (QUAIDS) of Banks et al. (1996; 1997) and Moro and Sckokai (2000). The data which form the foundation of our empirical model are based on a dataset that encompasses yearly food purchases by a sample of urban Chinese households. Our empirical demand system is defined over 12 aggregate commodities.

Cross-sectional surveys of food purchase behavior often contain purchase quantity and expenditure information. Division of observed expenditures by quantity (here referred to as unit-value) is often used as an estimate of a commodity's price (Gould, 1996; Yen et al., 2003). Previous analyses have recognized that this method of calculating price reflects not only differences in market prices faced by each household but also in endogenously determined commodity quality (Theil, 1953; Houthaker, 1952; Deaton, 1988; 1997; Cox and Wohlgenant, 1986; and Nelson, 1991). For example, observed differences in the price paid for cheese may reflect not only local market conditions but also product form. That is, households purchasing cheese in block form would be expected to pay a lower price than households purchasing cheese that is pre-sliced or shredded, *ceteris paribus*, given the additional value-added encompassed in the latter product forms.

As Nelson (1991) notes, the portion of product price determined by market forces is obviously beyond the control of the consumer whereas the quality portion is endogenous to the purchase process. To assist in differentiating between these two forces, Nelson (1991) presents a review of the consumer purchase process from the perspective of both elementary goods and *composite* commodities where an elementary good is relatively homogeneous while a composite commodity encompasses a set of elementary goods that vary according to characteristic(s) such as flavor, fat content, packaging, or product form. An example of an elementary good would be 2% milk purchased in a half gallon size package. In contrast, the category fluid milk represents a composite commodity that encompasses a set of fluid milk-based elementary goods such as the above.

In this analysis we develop a model structure where we differentiate between the exogenous market component of observed unit-values and the portion that is due to the

household endogenous quality decisions. Our econometric model consists of a system of expenditure shares derived from the indirect utility function associated with the QUAIDS model specification. We augment this share system with a series of unit-value equations that contain market level variables. Household characteristics which represent reduced form impacts on endogenous unit-values are also included in the estimated unit-value equations. We use the results of Deaton (1988; 1997) to convert the estimated “unit-value” elasticities to the traditionally interpreted price elasticities.

Econometric Model

When developing empirical models of food (and non-food) demand, previous research has provided evidence of the importance of allowing for complex nonlinear relationships between the level of total expenditures and such demand (Atkinson, et al., 1990; Lewbel, 1991; Hausman, et al., 1995). To this end, empirical demand systems have been developed that allow for extended expenditure (income) effects. QUAIDS is an example of such a system where expenditure shares are quadratic in the logarithm of total expenditures. This specification is based on a generalization of preferences represented by the Price Independent Generalized Logarithmic (PIGLOG) structure. Under the original specification, PIGLOG demand systems arise from indirect utility functions that are themselves linear in the logarithm of total expenditures (Muellbauer, 1976). An example of these PIGLOG specifications is the ubiquitous Almost Ideal Demand System (AIDS) specification of Deaton and Muellbauer (1980).

QUAIDS is based on the following indirect utility (IU) function:

$$(1) \quad \ln IU = \left\{ \left[\frac{\ln m - \ln[a(p)]}{b(p)} \right]^{-1} + \lambda(p) \right\}^{-1},$$

where the first term within the square brackets is the indirect utility function of a PIGLOG demand system, m is total expenditures, and p , is observed price. To assure that the homogeneity property holds for this indirect utility function, $a(p)$ is assumed to be homogeneous of degree 1 in p , and $b(p)$ and $\lambda(p)$ are differentiable and homogeneous of degree 0 in p .

The functions $\ln[a(p)]$ and $b(p)$ are the translog and Cobb-Douglas price aggregator functions found in the traditional AIDS formulations:

$$(2) \quad \ln a(p) = \alpha_0 + \sum_{i=1}^n a_i \ln p_i + \frac{1}{2} \sum_{i=1}^n \sum_{j=1}^n \gamma_{ij} \ln p_i \ln p_j,$$

$$(3) \quad b(p) = \prod_{i=1}^n p_i^{\beta_i},$$

where α_j , β_i , and γ_{ij} are unknown parameters and n the number commodities in the system.

To complete the specification following Banks et al. (1997), $\lambda(p)$ is defined as:

$$(4) \quad \lambda(p) = \sum_{i=1}^n \lambda_i \ln p_i,$$

where $\sum_{i=1}^n \lambda_i = 0$.

From (1)-(4), by applying Roy's Identity, the QUAIDS expenditure shares (w_i) can be represented via the following:

$$(5) \quad w_i = a_i + \sum_{j=1}^n \gamma_{ij} \ln p_j + \beta_j \ln \left[\frac{m}{a(p)} \right] + \frac{\lambda_i}{b(p)} \left\{ \ln \left[\frac{m}{a(p)} \right] \right\}^2.$$

Our use of household-level data requires that we recognize the heterogeneous nature of food preferences. The use of demand systems that account for such heterogeneity has had a long history starting with the efforts of Barten (1964) and extended by Pollack and Wales (1981), Heien and Pompelli (1988), Gould et al. (1991), Blundell et al. (1993) and Perali (1993). Lewbel (1985) provides the conceptual framework for incorporating demographic characteristics into a demand system. As noted by Perali (1993), the use of demographic translating has the effect of impacting the underlying cost function via fixed or subsistence level costs while demographic scaling changes the relative slope of a household's budget constraint by modifying the effective prices via changes in demographic characteristics.

Following Lewbel (1985) and Perali (1993), household expenditure (m^*) can be represented as a function of household utility, U , prices, p , and an S-vector of demographic characteristics, d : $m^* = f[C(U, h(p, d)), p, d]$, where C is a well-behaved expenditure function, $h(\cdot)$ and $f(\cdot)$ are continuous functions that have first and second derivatives that exist everywhere except possibly in a set of measure zero. The modifying function $h(\cdot)$ is assumed to generate non-negative modified prices for every commodity and a positive modified price for at least one.

As noted above, there are a number of approaches that can be used in the specification of $h(\cdot)$. For the present analysis and recognizing our use of unit-values instead of market prices, we allow for demographic translating via the system outlined by Perali (1993):

$$(6) \quad m^* = f[m, p, d] = m \prod_{i=1}^M p_i^{t_i(d)},$$

where $t_i(d)$ is a commodity specific translating function. In our analysis, these translating functions are specified as:

$$(7) \quad t_i(d) = \sum_{s=1}^S \omega_{is} d_s,$$

where ω_{is} is the translating parameter for the i^{th} commodity and the s^{th} demographic characteristic.

Substituting (6) and (7) into the indirect utility function represented in (1) and applying Roy's Identity, the resulting modified system of quadratic budget shares of the QUAIDS specification can be obtained:

$$(8) \quad w_i = a_i + t_i(d) + \sum_{j=1}^n \gamma_{ij} \ln p_j + \beta_j \ln \left[\frac{m^*}{a(p)} \right] + \frac{\lambda_i}{b(p)} \left\{ \ln \left[\frac{m^*}{a(p)} \right] \right\}^2.$$

This specification differs from that of Abdulai (2002) in our use of m^* which is impacted by changes in household characteristics.

As noted by Moro and Sckokai (2000), to allow for integrability, e.g., to be able to derive the underlying expenditure function given utility and prices, a series of parametric restrictions need to be imposed. For example, adding-up of expenditure shares implies:

$$(9) \quad \sum_{k=1}^n a_k = 1, \sum_{k=1}^n \beta_k = 0, \sum_{k=1}^n \lambda_k = 0, \sum_{k=1}^n \omega_{ks} = 0, \sum_{k=1}^n \gamma_{kj} = 0.$$

The theoretical restriction of linear homogeneity with respect to price is satisfied via the following parameter restrictions:

$$(10) \quad \sum_{k=1}^n \gamma_{jk} = 0.$$

Symmetry is satisfied provided that

$$(11) \quad \gamma_{ij} = \gamma_{ji}.$$

As shown by Banks et al. (1997) commodity-specific expenditure elasticities ξ_i , can be calculated as:

$$(12) \quad \xi_i = \frac{\Gamma_i}{w_i} + 1, \text{ where } \Gamma_i = \frac{\partial w_i}{\partial \ln(m^*)} = \beta_i + \frac{2\lambda_i}{b(p)} \left\{ \ln \left[\frac{m^*}{a(p)} \right] \right\}.$$

Given our use of calculated unit-values as arguments of the QUAIDS share equations in place of

market prices, uncompensated unit-value elasticities (π_{ij}^U) can be calculated as:

$$(13) \quad \pi_{ij}^U = \frac{\Gamma_{ij}}{w_i} - \kappa_{ij},$$

where $\Gamma_{ij} = \frac{\partial w_i}{\partial \ln(m^*)} = \gamma_{ij} - \Gamma_i(\alpha_i + t_i(d) + \sum_{j=1}^n \gamma_{ij} \ln p_j) - \frac{\lambda_i \beta_i}{b(p)} \left\{ \ln \left[\frac{m^*}{a(p)} \right] \right\}^2$, and κ_{ij} is the Kronecker

delta. From the above uncompensated elasticities, compensated elasticities π_{ij}^C can also be evaluated:

$$(14) \quad \pi_{ij}^C = \pi_{ij}^U + \xi_j w_j.$$

Most expenditure surveys have information on quantities purchased and expenditures. Dividing expenditures by quantity generates estimates of household-specific unit-values. As noted above, the empirical implementation of the QUAIDS model used in this analysis replaces commodity prices with unit-values. We then adjust the calculated “unit-value” elasticities shown in (13) to reflect market price impacts.

When using observed unit-values as a proxy for price, there is an implicit incorporation of not only the effects of exogenously determined product price but also product quality. Following Theil (1952), Nelson (1991), Deaton (1988, 1997), and Dong, Shonkwiler and Capps (1998), the relationship between unit-value (V_j), market price (P_j) and quality (ψ_j) can be expressed as:

$$(15) \quad \ln V_j = \ln P_j + \ln \psi_j.$$

Using this result, Deaton (1988, 1997) shows that

$$(16) \quad \pi_{jj}^w = \frac{\partial \ln \psi_j}{\partial \ln P_j} = \eta_j \frac{\pi_{jj}^p}{\xi_j} \quad \text{and} \quad \pi_{jj}^v = \frac{\partial \ln V_j}{\partial \ln P_j} = 1 + \frac{\partial \ln \psi_j}{\partial \ln P_j} = 1 + \pi_{jj}^w,$$

where π_{jj}^p is the own-price elasticity, ξ_j is the j^{th} commodity expenditure elasticity, and η_j is the j^{th} quality elasticity of expenditure ($\partial \ln \psi_j / \partial \ln E$). As Deaton (1988) notes, we would expect that should market prices increase, consumers can be expected to adjust both the quantities purchased and the quality of these purchases (i.e., the composition of the underlying goods that make up a particular composite commodity will be adjusted). We would expect to see a degradation in product quality, that is, $\partial \ln \psi_j / \partial \ln P_j < 0$.

The above implies that if one uses calculated unit-values obtained from an expenditure

survey in the estimation of commodity demand elasticities and interprets them as such, these demand elasticities incorporate both exogenous price and quality effects. Under the most usual conditions, such elasticities tend to overstate the price elasticity in absolute magnitude if the product of the price and quality elasticities is smaller than the expenditure elasticity. The above relationships provide the framework for adjusting these “demand” elasticities to control for such quality effects.

Following Deaton (1997), from (16) the relationship between the own unit-value elasticity

$$\left(\pi_{jj}^U = \frac{d\ln(Q_j)}{d\ln(V_j)} \right) \text{ and own-price elasticity } \left(\pi_{jj}^P = \frac{d\ln(Q_j)}{d\ln(P_j)} \right) \text{ is:}$$

$$(17) \quad \pi_{jj}^U = \frac{\pi_{jj}^P}{1 + \eta_j \pi_{jj}^P / \xi_j} \rightarrow \pi_{jj}^P = \frac{\pi_{jj}^U}{1 - \eta_j \pi_{jj}^U / \xi_j}.$$

Dong, Shonkwiler and Capps (1998) and Dong and Gould (2000) incorporate the above into a model originally formulated by Wales and Woodland (1980) to account for selectivity bias in estimating a conditional commodity expenditure equation for a composite good while at the same time endogenizing unit-value. Under their two-equation model, a unit-value regression equation is formulated along with conditional expenditure functions where expenditure and unit-value equation error terms are assumed to be normally distributed and correlated. Parameters of the expenditure and price equations are estimated within a single likelihood function encompassing all observations.

Deaton (1997) provides a general framework for incorporating product quality within an empirical demand system. His methodology involves augmenting a system of utility-based share equations with an associated set of unit-value equations. In his original specification, both sets of dependent variables (i.e., expenditure shares and commodity unit-values) are dependent on unobserved prices. Given the size of our empirical model and the complexity of the functional form used, instead of using his method for solving for unobserved prices, we use observed unit-values in the share equations and a set of market level variables in the unit-value equations as instrumental variables for unobserved market prices. We then use the relationships shown in (18) to transform the estimated unit-value elasticities (π_{ij}^U) to price elasticities (π_{ij}^P).

We augment the QUAIDS share equations shown in (8) with the following unit value equations:

$$(18) \quad \ln V_j = \tau_{0j} + \sum_{r=1}^R \tau_{rj}^* R_r + \sum_{d=1}^D \tau_{dj} D_d + v_j ,$$

where the τ^* 's and τ 's are coefficients to be estimated and R_r is the r^{th} regional dummy variable used to capture the exogenous market price effects on observed unit-values.¹ The vector of variables represented by D_d corresponds to the set of demographic characteristics (including the logarithm of total FAH expenditures) used as instruments for the unobserved product quality.

The share equations represented by (8) and the unit-value equations represented by (18) represent our complete simultaneous system. It should be noted that only the expenditure share equations have endogenous variables as arguments (i.e., $\ln V_j$). As noted by Greene (2003) expressing all equations in a reduced form results in a likelihood function that is the same as the seemingly unrelated regression equation where we assume all error terms to be related via a multivariate normal distribution. A Full-Information Maximum Likelihood estimator is used to obtain parameter values.

Chinese Urban Household Food Expenditure Data

The data used in this study are the same as used by Gould and Villarreal (2006) that are obtained from an annual household expenditure survey conducted by the State Statistical Bureau (SSB). These data encompass household expenditures for urban households in the provinces of Jiangsu, Shandong, Guangdong, Heilongjiang and Henan for the year 2001. We use an urban sample to avoid issues associated with the consumption of home produced foods. The first three provinces are located on the China Sea. Jiangsu and Quangdong are the most prosperous provinces given their location close to Shanghai and Hong Kong, respectively (Table 1). The latter two provinces are the poorest of the five. Both are located in the interior with Heilongjiang being the most north and Henan located west of Shandong. In addition to food purchase quantity and value, household and member demographic characteristics are also included in this data set. A total of 3,650 households were used to estimate the parameters of our food system (Table 2).

¹ This implies that when estimating the share equations we use predicted unit values instead of observed unit values or unobserved market prices.

Table 1: Allocation of Food Expenditures across Food Commodity Group, Expenditure Decile and Region

	<i>Entire Sample</i>	<i>Lowest Decile</i>	<i>Highest Decile</i>	<i>Jiangsu</i>	<i>Shandong</i>	<i>Guangdong</i>	<i>Henan</i>	<i>Heilongjiang</i>
Beef	8.6	7.1	11.4	8.4	8.0	11.4	7.6	9.4
Pork	10.4	11.7	9.5	10.9	9.5	10.2	12.7	11.1
Poultry	5.7	3.9	14.5	6.3	6.0	9.7	5.7	3.0
Seafood/Fish	7.9	4.5	11.3	11.1	7.3	14.1	3.0	5.8
Vegetables	11.3	13.8	4.5	10.8	9.8	11.4	12.6	13.6
Rice	5.0	6.9	8.8	6.3	2.0	4.9	4.4	7.1
Other Grain	7.6	13.4	5.9	3.4	9.2	4.2	14.1	9.6
Fruit	7.8	7.8	4.2	5.7	7.9	7.9	7.6	10.6
Dairy	5.0	3.2	5.9	5.3	6.9	4.6	4.1	4.8
Eggs	4.1	6.6	1.9	3.4	5.4	1.7	6.2	4.9
Fats/Oils	3.4	5.1	2.5	3.1	2.7	2.4	5.4	4.3
Other Food	15.4	16.1	15.8	16.3	17.7	13.6	16.6	15.8
Total Food Expend. (Yuan)	6,356	2,043	16,476	6,426	5,071	13,083	4,128	4,435
Food-at-Home (FAH) Expend. (Yuan)	5,135	1,790	11,604	5,335	4,242	9,234	3,660	3,983
Household Income(Yuan)	23,661	10,931	56,990	22,961	20,588	47,446	15,884	16,612
Income as % of All Urban Chinese Food Expend. As % of Income	116.1	53.6	279.7	112.7	101.0	232.8	67.1	70.2
FAH* as % of Income	26.8	18.7	28.9	28.0	24.6	27.6	26.0	26.7
Sample Size	21.7	17.4	19.7	23.2	20.6	19.5	23.0	24.0
	3650	365	365	800	650	600	600	1000

*Note: During June 2001, 1 \$US = 8.28 Yuan. In 2001, the average urban household income across all Chinese provinces was 20,378 yuan (National Bureau of Statistics, 2003). The decile categories in the above table are defined relative to total food expenditures.

Table 2: Summary of Household Characteristics Used in the Demand System

Variable	Description	Unit	Equation	Entire Sample	Bottom Decile	Top Decile	Jiangsu	Shandong	Guangdong	Henan	Heilongjiang
HH_INC	Total Household Income	Yuan	S	23,661	10,931	56,990	22,961	20,588	47,446	15,884	16,612
HH_SIZE ^a	Number of Resident Members	#	S,V	3.1	2.9	3.5	2.9	3.1	3.3	3.2	3.0
FAH	Total Food-at-Home Expenditures	Yuan	V	5,135	1,790	11,604	5,335	4,242	9,234	3,660	3,983
D_REFRIG	Own Refrigerator/Freezer	0/1	V	0.83	0.57	0.97	0.90	0.90	0.92	0.79	0.70
AGE ^b	Age of Household Head	Year	S	47.4	45.7	46.0	51.3	43.7	44.3	48.1	48.3
Meal Planner Education Status											
D_ADV	Completed More Than High School	0/1	V	0.26	0.17	0.36	0.18	0.38	0.32	0.19	0.24
D_LHS	Completed Less Than High School	0/1	V	0.46	0.57	0.28	0.57	0.37	0.28	0.54	0.50
Household Composition											
D_LT_6	Child < 6 Years Old Present	0/1	S	0.11	0.12	0.13	0.08	0.12	0.12	0.17	0.09
D_6_14	Child Between 6-14 Years Old	0/1	S	0.28	0.32	0.33	0.21	0.31	0.32	0.33	0.26
D_SENIOR	Adult > 65 Years Old Present	0/1	S	0.26	0.19	0.28	0.33	0.14	0.22	0.30	0.27
PER_LT_6	% Members <6 Yrs. Old	%	V	3.1	3.7	3.4	2.3	3.7	3.3	4.6	2.5
PER_6_14	% Members Between 6-14 Yrs. Old	%	V	8.7	10.8	10.0	6.4	9.8	10.1	10.5	8.1
PER_SENIOR	% Members > 65 Yrs. Old	%	V	14.7	12.3	10.1	21.8	7.2	8.6	16.4	16.3
Household Province											
D_JS	Jiangsu*	0/1	S,V	0.23	0.13	0.11	1.0				
D_SD	Shandong	0/1	S,V	0.18	0.13	0.02		1.0			
D_GD	Guangdong	0/1	S,V	0.16	0.00	0.85			1.0		
D_HN	Henan	0/1	S,V	0.16	0.33	0.01				1.0	
D_HLJ	Heilongjiang	0/1	S,V	0.27	0.41	0.01					1.0
Sampled Households				3650	365	365	800	650	600	600	1000

Note: The symbol * identifies the omitted region. The education related dummy variables are based on the educational attainment of the meal planner which is assumed to be the female head if present otherwise it is the male head. "S" and "V" identify use of the associated variable in the expenditure share and unit value equations, respectively.

^a In the share equations, the inverse of household size is used as an explanatory variable. In the unit value equations, the natural logarithm of household size is used.

^b In the share equations, the natural logarithm of AGE is used as an explanatory variable

In the expenditure survey, households maintain detailed daily expenditure diaries related to the purchase of food and nonfood items over the entire survey year. The daily diaries are then summarized by county statistical offices and aggregate results for each expenditure item and household reported to the SSB. The annual nature of these diaries is in contrast to other developing country surveys that typically encompass 1-2 weeks of purchases (Dong et al., 2004; Sabates et al., 2001). The brevity of the data collection period in these other setting usually results in the censoring of food expenditures. Such censoring represents a significant econometric problem when estimating disaggregated food demand systems (Dong et al., 2004; Perali and Chavas, 2000; Yen et al., 2003). Given the annual nature of the expenditure diaries used here, even with the development of our 12 food demand system, commodity censoring was not a problem.

For our analysis we adopt commodity group definitions similar to the categories used by Gao et al. (1996), in their analysis of Chinese household food purchase behavior. These food categories include beef/mutton (BF), pork (PK), poultry (PLT), fish/seafood (SFD), vegetables (VEG), fruits (FRT), rice (RIC), other grain products (OGR), dairy products (DA), eggs (EGG), food fats and oils (FAT), and other foods for at-home consumption (OTH).²

Table 2 provides an overview of food purchase patterns of our sampled households. Mean annual household income ranges from 15,884 yuan/household in Henan province to 47,446 yuan in Guongdong. In spite of this wide range there is little variation in the mean share of household income allocated to food. The minimum mean food share is 24.6% for households in Shandong province. This compares to 28.0% for households in Jiangsu province. In contrast, there are some significant differences in the allocation of average household food budgets across specific food categories. For example, Guongdong, the more affluent province, relies the least on grain-based commodities (7.0% of total food expenditures) while households in Henan rely the most (17.0% of expenditures). For the 5 provinces included in this analysis, the sample mean income is 16.1% greater than the mean household income across all urban Chinese households. Again the relative value of this value varies across province, from slightly more than 66% for our sample of households from Henan province to more than 230% for our sample

² A detailed listing of the commodities contained in these categories can be obtained from the authors upon request. For those rare occasions where a household did not report purchasing a particular commodity category, the average unit-value for that commodity in that household's particular city/county were used in the econometric model. FAFH is not included in the current analysis given the difficulty with defining the unit-value of FAFH purchases. For an example of a study that includes FAFH in a food demand system, see Perali and Chavas (2000).

of urban Guangdong households.

Besides data sorted by region of residence, we also present food purchase characteristics for households contained in the highest and lowest total food expenditure deciles. Not surprisingly, the most significant difference can be seen with respect to the importance of FAFH as a food source. Slightly less than one-third of total food expenditures by households in the highest expenditure decile, is spent on FAFH. This compares to only 7% for households in the lowest expenditure decile. More than 35% of FAH expenditures is associated with beef, pork or poultry for the highest decile households. This compares to less than 23% for households in the lowest decile. The lowest decile households also spend relatively more on vegetables compared to high decile households.

We account for household heterogeneity in the estimated expenditure share equations by including a set of demographic characteristics in the translating functions, $ti(p)$. Table 2 provides an overview of these characteristics along with the household characteristics used in the unit-value equations. Besides the wide range in household income across region noted in Table 1, there is a parallel pattern obtained with respect to the percent of households owning refrigerators and/or freezer appliances (D_REFRIG) and meal planner education (D_ADV, D_LHS).

Approximately 17% of the sampled households indicated they did not own a refrigerator or freezer. The ownership of refrigerated storage has previously been shown to be important determinants of food choice in other developing country settings (Gould and Villarreal, 2002). The presence of refrigerated storage can impact not only the purchase choice of perishable versus nonperishable commodities but also their frequency of purchase (Blundell and Meghir, 1987). Given our survey encompasses an entire year of purchase history; infrequency-of-purchase is not felt to be an important issue. Only 70% of sampled households in Heilongjiang province possessed refrigerated storage. This compares to more than 92% of the sampled households in Guangdong province. Less than 60% of households had refrigerated storage facilities in the lowest expenditure decile compared to more than 97% in the highest decile.

Previous analyses have also shown that educational attainment of the main meal planner has an impact on food choice and nutritional quality of the resulting diets (Sabates et al., 2001). That is, we hypothesize a positive relationship between meal planner education and diet quality. Overall, approximately 46% of the household meal planners did not have a high school

education (D_HS). This percentage varies from 57% for households located in Jiangsu to 28% for households in Shandong province. Less than 17% of the meal planners residing in the lowest expenditure decile households possessed advanced degrees.

Given the results of (16), in the estimated unit-value equations represented by (19) we use regional dummy variables to account for the exogenous component of observed unit-values. As shown in Table 2, we also include in the unit-value equations variables representing household size, income, educational attainment of the meal planner, age composition of household members and the total expenditures on food (including FAFH).

Application of the Econometric Model to Chinese Urban Households

Given expenditure share adding-up and theoretical symmetry conditions, estimation of share equation parameters was achieved by dropping one share equation, e.g., other food, from the estimation process. Parameters for this omitted category were recovered from these conditions. We assume that the remaining 11 share equations and the 12 unit-value error terms are jointly distributed multivariate normal. We use the following log-likelihood function to obtain parameter estimates:

$$(19) \quad \ln L = -\frac{(2M-1)T}{2} \ln(2\pi) - \frac{T}{2} \ln |\Omega| - \frac{1}{2} \sum \begin{pmatrix} \varepsilon_t^* \\ v_t \end{pmatrix}' \Omega^{-1} \begin{pmatrix} \varepsilon_t^* \\ v_t \end{pmatrix},$$

where M is the number of aggregate commodities included in the system, T the number of households in the sample, ε_t^* is the $([M-1] \times 1)$ share equation error terms used in estimation, v_t is the $(M \times 1)$ unit value equation error terms and Ω is the $([2M-1] \times [2M-1])$ error term covariance matrix. As noted above, after expressing the share equations in reduced form a Full Information Maximum Likelihood estimator was used within the GAUSS software system to obtain parameter estimates. In order to estimate the large system included in the present application we assumed that the covariance of the share and unit-value equation error terms are zero. Even with this assumption we were still required to estimate 519 parameters which included the remaining 265 error covariance matrix elements.

Overview of Estimated Share Equation Coefficients: Appendix Table A1 contains a listing of the estimated coefficients, associated standard errors and equation R^2 values for the 12 expenditure share equations. Appendix Table A2 contains similar results for the unit-value equations. The share equation R^2 values were of reasonable size given our use of cross-sectional

data ranging from 0.029 for pork to 0.436 for other grains. It was not surprising that the R^2 values for the unit-value equations tended to be larger than the share equation values given the use of $\ln V$ as the dependent variable. The range in unit value R^2 values was from 0.082 for dairy products to 0.688 for the fruit commodity.

As shown in Appendix Table A1, there are 11 demographic-related coefficients in each share equation resulting in 132 share equation demographic related parameters. Approximately two-thirds of these coefficients were statistically significant at the 0.01 level. There appears to be significant regional differences in the structure of food demand as 40 of the 48 provincial dummy variable coefficients were statistically significant. Compared to the impact of region on food demand structure we found less of an impact of household age composition. Less than a third of the age related dummy variable coefficients were found to be statistically significant. Not surprisingly, for dairy products we see that having children in the household positively impacts the share of total expenditures allocated to dairy products. Having adults over the age of 65 in the household only impacted expenditures on fruits (-) and rice (+).

We included household head age (AGE) as an explanatory variable in the share equations to capture some of the age-related cohort effects in food choice. From Appendix Table A1, we see that head age is negatively related to the share of total food expenditures allocated to beef, poultry, fruits and dairy products. We also find some evidence that household income impacts food choice. The estimated coefficients associated with household income in the share equation were statistically significant except in for the poultry equations. The level of food expenditure shares associated with beef, fruit, and dairy products were positively related to household income.

We hypothesized that refrigerator ownership would have a positive impact on the share of relative expenditures spend on commodities considered to be perishable. Except for the other foods category, the commodities where a positive impact of refrigerator ownership was for commodity groups that could be considered being composed of perishable foods (e.g., beef, seafood, fruit, and dairy products).

From Appendix Table A1 we see that a majority of price related coefficients are significantly different from zero (i.e., 65 out of 78). The beef and poultry commodities had the least number of statistically significant price coefficients. The price coefficients associated with the dairy products (10 out of 12) and other food categories (12 out of 12) had the largest number

of statistically significant coefficients.

Overview of the Estimated Coefficients in the Unit Value Equations: Appendix Table A2 contains the estimated coefficients associated with the unit-value equations. As noted above we use the regional dummy variables to provide an estimate of exogenous market prices (i.e., $\ln P_j$). There are significant regional differences in commodity prices as reflected in 40 of the 48 estimated regional dummy coefficients being statistically significant from the base region, Shandong. Market prices in Guangdong and Jiangsu provinces are tend to be higher versus those in Henan and Heilongjiang provinces. This result is not surprisingly given the relative income levels in these provinces (Table 1).

We initially hypothesize a negative relationship between household size and observed unit values reflecting a household's ability to obtain economies of scale when purchasing larger quantities. Dong and Gould (2000) found such an effect in their analysis of purchases of pork and poultry purchases. We do not find evidence of this in the present application with significant negative values obtained in the fats and oils and other food commodity groupings.

There appears to be some relationship between education level and unit-value. This suggests that more educated households exhibited an increased demand for quality, *ceteris paribus*. Household composition appears to matter in terms of the demand for food quality. Unit-values for 5 of the 12 commodities are impacted by the percentage of household members that are older than 65 years. The beef commodity shows a positive unit-value relationship compared to negative values obtained in the vegetable, fruit, other grain and dairy product unit value equations. All of the unit value coefficients associated with the PER_LT_6 and PER_6_14 variables were positive, indicating increased demand for quality. Again, this may be reflecting a cohort effect where younger households being accustomed to purchasing better quality food.

Evaluation of the Structure of Food Demand: From (12) expenditure elasticities (ξ_j) are calculated using the mean values of the exogenous variables and displayed in Table 3. Banks et al. (1997) note that given the expression for the expenditure elasticities shown in (12) a positive β_i coefficient in combination with a negative λ_i value implies for relatively low expenditure levels, the i^{th} commodity could be considered a luxury and a necessity for relatively high expenditure levels. Only the pork commodity exhibits this structure. It was surprising that dairy products did not fall into this category given the historically low levels of dairy product expenditures in the past and rapid increases in such expenditures recently.

Table 3: Uncompensated Unit-Value and Expenditure Elasticities

		Quantity Change											
		BF	PK	PLT	SFD	VEG	FRT	RI	OG	DA	EG	FAT	OTH
Price Change	BF	-0.968	0.095	-0.008	0.022	-0.012	-0.015	0.014	-0.022	-0.042	-0.013	-0.026	-0.167
	PK	0.071	-0.579*	0.018	-0.110	0.053	-0.094	-0.022	-0.026	-0.126	0.041	0.013	-0.515
	PLT	-0.011	0.045	-0.876*	0.021	0.020	-0.040	-0.160	0.011	0.045	0.063	-0.037	-0.211
	SFD	0.027	-0.140	0.017	-0.608*	-0.075	0.044	-0.122	0.041	-0.022	-0.073	-0.009	-0.057
	VEG	-0.005	0.056	0.013	-0.052	-0.678*	-0.046	0.010	-0.124	-0.040	-0.063	0.023	-0.049
	FRT	0.001	-0.104	-0.017	0.048	-0.063	-0.704*	-0.126	0.033	0.066	-0.094	-0.040	0.277
	RI	0.021	-0.058	-0.183	-0.193	0.025	-0.185	-0.603*	0.126	-0.116	0.285	0.153	-0.241
	OG	0.001	0.000	0.026	0.046	-0.180	0.029	0.074	-1.019	0.096	-0.061	-0.087	0.436
	DA	-0.067	-0.235	0.054	-0.040	-0.101	0.070	-0.114	0.102	-0.405*	-0.065	-0.049	-0.339
	EG	-0.020	0.114	0.090	-0.138	-0.171	-0.180	0.338	-0.117	-0.070	-0.737*	0.002	-0.052
	FAT	-0.073	0.037	-0.066	-0.023	0.069	-0.102	0.225	-0.209	-0.081	-0.001	-0.713*	-0.275
	OTH	-0.036	-0.216	-0.043	-0.037	-0.058	0.043	-0.085	0.093	-0.064	-0.025	-0.028	-0.510*
Expenditure Elasticity	1.142	1.277	1.130	0.977	0.954	0.722	0.968	0.639	1.191	0.941	1.215	0.966	

Note: The above elasticities were evaluated at the mean values of the exogenous variables. For the unit value elasticities, shaded values identify those that are statistically different from 0 with a 0.01 Pr(Type I Error). For the expenditure elasticities a shaded value identifies elasticities statistically different from 1.0. For own unit value elasticities, a “*” indicates a value statistically different from -1.0 at the 0.01 significance level

When evaluated at these mean values of the exogenous variables we find that beef, pork, dairy products and fats and oils have expenditure elasticities significantly greater than 1.0. Given the relative increase in per capita fruit consumption in recent history, it is surprising that the estimated fruit expenditure elasticity is significantly less than 1.0.

Table 3 also contains a summary of the estimated uncompensated (Marshallian) unit-value elasticities, π_{ij}^U , via (14). All own unit-value elasticities were found to be significantly less than zero and all except for the other grains commodity were inelastic. Surprisingly, dairy products exhibited the most own unit-value inelastic structure. In terms of the cross price effects we found a mixture of gross complements and substitutes. Of the 132 cross unit-value elasticities, 77 were found to be statistically different from 0. The large number of significant relationships reinforces the need for us to disaggregate our analysis of food purchases versus the more ad hoc single equation approaches. Of the statistically significant cross unit-value elasticities all exhibit inelastic relationships. The relationship between demands for other food commodities due to a change in unit-value of the other grains commodity shows the largest substitution relationship with a cross-price elasticity of 0.436. The next largest substitute relationship was between the demand for rice in reaction to changes in the egg unit value. An example of a complementary relationship can be seen for the impact on other food demand resulting from the pork unit value, -0.515.

Differentiation of Unit Value and Price Elasticities: Deaton (1988; 1997) provides the theoretical framework for differentiating the effects on food choice of changes in endogenously determined unit values versus exogenous market prices. As noted above, Table 3 contains elasticity measures that incorporate quality effects. To isolate the quality effects of price changes, Table 4 provides a summary of alternative elasticity measures used to correctly evaluate the own-price impacts on commodity demand.

Similar to the interpretations of Prais and Houthaaker (1955), Cramer (1973) and Deaton (1997) we interpret the elasticity of unit value to a change in total expenditures (FAH), as a measure of the quality elasticity, e.g. $\eta_j = \frac{\partial \ln \psi_j}{\partial \ln E} = \frac{\partial \ln V_j}{\partial \ln FAH}$. These elasticity values are displayed in the first column of Table 4. They are relatively small but much larger than those obtained by Myrland et al. (2003) in their analysis of the demand for salmon (0.002) which was based on a similar methodology as used here but applied to a single commodity.

Table 4: Comparison of Various Elasticity Measures

Commodity	Quality (η_j) [1]	Unit Value (π_{jj}^U) [2]	Own Price (π_{jj}^P)			Unit-Value Own Price (π_{jj}^V)			Quality Own Price (π_{jj}^W)		
			Base [3]	2X [4]	3X [5]	Base [6]	2X [7]	3X [8]	Base [9]	2X [10]	3X [11]
BF	0.093 (0.021)	-0.968 (0.021)	-0.898 (0.025)	-0.837	-0.784	0.927 (0.016)	0.864	0.810	-0.073 (0.016)	-0.136	-0.190
PK	0.059 (0.005)	-0.579 (0.060)	-0.564 (0.057)	-0.550	-0.536	0.974 (0.004)	0.949	0.926	-0.026 (0.004)	-0.051	-0.074
PLT	0.139 (0.013)	-0.880 (0.046)	-0.794 (0.039)	-0.723	-0.664	0.902 (0.010)	0.822	0.754	-0.098 (0.010)	-0.178	-0.246
SFD	0.250 (0.015)	-0.608 (0.028)	-0.526 (0.020)	-0.464	-0.414	0.865 (0.013)	0.763	0.682	-0.135 (0.013)	-0.237	-0.318
VEG	0.287 (0.013)	-0.678 (0.022)	-0.563 (0.016)	-0.482	-0.421	0.831 (0.008)	0.710	0.621	-0.169 (0.008)	-0.290	-0.379
FR	0.254 (0.015)	-0.704 (0.033)	-0.564 (0.024)	-0.471	-0.404	0.802 (0.015)	0.669	0.574	-0.198 (0.015)	-0.331	-0.426
RIC	0.071 (0.007)	-0.603 (0.086)	-0.577 (0.079)	-0.554	-0.532	0.957 (0.008)	0.918	0.882	-0.043 (0.008)	-0.082	-0.118
OGR	0.140 (0.016)	-1.019 (0.035)	-0.833 (0.029)	-0.704	-0.610	0.817 (0.020)	0.691	0.598	-0.183 (0.020)	-0.309	-0.402
DA	0.180 (0.017)	-0.405 (0.055)	-0.382 (0.049)	-0.361	-0.342	0.942 (0.009)	0.891	0.845	-0.058 (0.009)	-0.109	-0.155
EGG	0.032 (0.006)	-0.737 (0.072)	-0.719 (0.068)	-0.702	-0.685	0.975 (0.005)	0.952	0.930	-0.025 (0.005)	-0.048	-0.070
FAT	0.113 (0.011)	-0.713 (0.065)	-0.669 (0.057)	-0.630	-0.595	0.938 (0.009)	0.883	0.835	-0.062 (0.009)	-0.117	-0.165
OTH	0.311 (0.014)	-0.510 (0.038)	-0.438 (0.030)	-0.384	-0.342	0.859 (0.008)	0.753	0.670	-0.141 (0.008)	-0.247	-0.330

Note: The terms "2X" and "3X" refer to estimates based on values of the Quality Elasticity, η_j , being 2 and 3 times as large as the values displayed in column (1). Standard deviations are in parentheses. Standard deviations are not presented for the 2X and 3X simulations as they required an assumption concerning the associated standard deviation of the underlying coefficients.

Dong and Gould (2000) in their double-hurdle model of pork and poultry purchases by Mexican households obtain similar values as those reported in Table 4, 0.060 and 0.10, respectively. In the analysis of food demand in urban households in Pakistan (1984-85), Deaton (1997) obtained a relatively large value for his aggregate meat category, 0.242 when compared to the estimated values obtained for our beef, pork and poultry commodities.

The second column of Table 4 repeats the value of the own unit value elasticities previously reported in Table 3. The next 3 columns use the results of (17) to summarize our estimates of the own-price elasticities, π_{jj}^P under alternative expenditure elasticity scenarios. Similar the results of Deaton (1997) the relatively small quality elasticities result in small differences in π_{jj}^U versus π_{jj}^P values. The π_{jj}^P values shown under the Base column correspond to the values obtained using the quality elasticities obtained from the estimated unit value equations. Only for the fruit and other grains commodities do we see a major difference between the unit-value versus price based elasticity measures. Next to the *Base* model we present our estimates of the own price elasticity if the quality elasticity had been double (2X) or triple (3X) the estimated value.

Given our estimates of π_{jj}^P we use (17) to generate estimates of the relationship between observed unit-values and unobserved market prices, e.g., $\pi_{jj}^V = \frac{\partial \ln V_j}{\partial \ln P_j}$. These estimates are provided in columns 6-8 of Table 4 based on the same quality elasticity values used in the evaluation of the price elasticities. We would expect that $0 < \pi_{jj}^V < 1$. The higher the number the lower the role quality plays in determining observed unit-values. The range in values was from 0.975 for eggs to 0.817 and 0.802 for the other grains and fruit categories, respectively. The relatively large value for eggs is not surprising given the egg commodity is composed of mostly a single fundamental good, chicken eggs which is fairly standardized. In contrast, the other grains category is composed of a number of different types of fundamental goods some with very little valued added characteristics such as raw small grains versus others that embody significant value added, e.g., breads and bakery items. The relatively high π_{jj}^V values for the meat categories and for dairy products were surprising given the variety of product forms and degree of processing associated with composite commodities. Similar to the analysis of π_{jj}^P we also examine the sensitivity of π_{jj}^V to alternative quality elasticity.

Given the definition of unit-values and the relationship between observed unit-values, product price and quality noted in (15), the quality own price elasticity $\left(\pi_{jj}^q = \frac{\partial \psi_j}{\partial P_j} \right)$ exhibits the opposite pattern of the above unit-value own price elasticity. That is, the quality of the Other Grain and Fruit commodities responded the most to changes in unit-values.

We verify the theoretical results of Deaton (1988; 1997) by finding that for all commodities, a price increase, *ceteris paribus*, will result not only in a reduction in quantity purchased but also a reduction in the quality of the composite commodity bundle. If the quality elasticity for the Fruit commodity had been 0.508 versus the actual value of 0.254, the quality own-price elasticity is projected to increase in absolute value from 0.198 to 0.331.

Summary

This research utilizes a generalization of the Quadratic Almost Ideal Demand System (QUAIDS) to quantify the structure of food demand of urban households in 5 Chinese provinces. We extend previous research via the estimation of a disaggregated demand system while at the same time accounting for the endogenous decision as to product quality. By capturing the joint nature of the quantity and quality decisions we are able to examine the impact of quality when market prices change. As predicted, increases in market prices result in changes in purchase patterns such that overall commodity quality is reduced.

The results presented in this chapter show that there are statistically significant substitution effects between foods. The utilization of the QUAIDS specification was important as a likelihood ratio test indicated that this specification added significant explanatory power to the model versus the traditional AIDS specification. Using the QUAIDS specification we obtain reasonable unit value and price elasticity estimates when compared to other analyses of food demand by Chinese households.

Our method for examining the impacts of product quality results in a set of elasticity measures that indicate that product quality is relatively inelastic with respect to changes in market prices. The analysis presented here is based on demand characteristics for the sample as a whole. A more detailed analysis should examine how the demand for quality varies across households in different income deciles, expenditure deciles, region of residence, etc. We also need to provide estimated cross-price elasticities using the estimated cross unit-value elasticities. These values will enable us to answer the question as to whether the similarity of the

own price and own unit-value elasticities carries over to cross price effects.

An extension of the current model would be to examine the sensitivity of our results to changes in the method by which we endogenize product quality. That is, in the estimated QUAIDS share equations we use predicted simultaneously determined unit values instead of unobserved commodity market prices as explanatory variables. This is in contrast to the methodology proposed by Deaton (1997) whereby both the system of share equations and unit value equations use the unobserved commodity market prices as explanatory variables. He applies this methodology to a Linear Approximate AIDS-based system. Our use of the much more nonlinear QUAIDS model greatly complicates the implementation of Deaton's (1997) framework. In the future, we will undertake the task of incorporating his methodology within the QUAIDS structure.

There is no doubt that China is becoming more of an important market for U.S. food manufacturers and marketers. As domestic income levels improve the demand for specific foods will change not only in terms of the amount demanded but also in terms of product quality. U.S. firms desiring to access the Chinese food market need to recognize this demand for product quality. The current analysis indicates that there is a quantity versus quality tradeoff but to this point such a relationship varies across commodity but in general is relatively minor. Future research, using more recent food expenditure data, will be used to evaluate whether product quality adjusts to commodity price changes becomes more important.

References

- Abdulai, A. "Household Demand for Food in Switzerland: A Quadratic Almost Ideal Demand System," *Swiss Journal of Economics and Statistics* 138(2002): 1-18.
- Atkinson, A.B., J. Gomulka, and N.H. Stern. "Spending on Alcohol: Evidence from the Family Expenditure Survey 1970-1983," *Economic Journal* 100(1990): 808-827.
- Banks, J., R. Blundell, and A. Lewbel. "Tax Reform and Welfare Measurement: Do We Need Demand System Estimation," *Economic Journal* 106(1996): 1227-1241.
- Banks, J., R. Blundell, and A. Lewbel. "Quadratic Engel Curves and Consumer Demand," *Review of Economics and Statistics* 79(1997): 527-539.
- Barten, A.P. 1964. "Family Composition, Prices and Expenditure Patterns." In the 16th Symposium of the Colston Society, P.G. Hart, G. Mills, and J.K. Whittaker (eds.). London: Econometric Analysis for National Economic Planning.
- Blundell, R.W., and C. Meghir. "Bivariate Alternatives to the Tobit Model," *Journal of Econometrics* 34(1987): 179-200.
- Blundell, R. P. Pashardes, and G. Weber. "What Do We Learn about Consumer Demand from Micro Data?" *American Economic Review* 83(1993): 570-597.

- Cox, T.L., and M.K. Wohlgenant. "Prices and Quality Effects in Cross-Sectional Demand Analysis," *American Journal Agricultural Economics* 68(1986): 908-919.
- Cramer, J.S. "Interaction of Income and Price in Consumer Demand," *International Economic Review* 14(1973):351-363.
- Deaton, A. "Quality, Quantity, and Spatial Variation of Price," *American Economic Review* 78(1988):418-430.
- Deaton, A. *The Analysis of Household Surveys: A Microeconometric Approach to Development Policy*. Baltimore: Johns Hopkins University Press (1997).
- Deaton, A. and J. Muellbauer. "An Almost Ideal Demand System," *American Economic Review* 70(1980): 312-336.
- Dong, D. and B.W. Gould. "Quality versus Quantity in Mexican Household Poultry and Pork Purchases," *Agribusiness: An International Journal* 16(2000): 33-356.
- Dong, D., B.W. Gould, and H.M. Kaiser. "Food Demand in Mexico: An Application of the Amemiya-Tobin Approach to the Estimation of a Censored Food System," *American Journal of Agricultural Economics* 86(2004): 1094-1107.
- Dong, D., J.S. Shonkwiler, and O. Capps. "Estimation of Demand Functions Using Cross-Sectional Household Data: The Problem Revisited," *American Journal Agricultural Economics* 80(1998): 466-473.
- Gale, F. "China's Growing Affluence: How Food Markets are Responding," *Amber Waves*. Washington DC: Economic Research Service, USDA (2003).
- Gao, X.M, E.J.Wailes, and G.L. Cramer. "A Two-Stage Rural Household Demand Analysis: Microdata Evidence from Jiangsu Province, China," *American Journal of Agricultural Economics* 78(1996): 604-13.
- Gould, B.W. "Factors Affecting U.S. Demand for Reduced-Fat Fluid Milk," *Journal of Agricultural and Resource Economics* 21(1996): 68-81.
- Gould, B.W., T.L. Cox, and F. Perali. "Demand for Food Fats and Oils: The Role of Demographic Variables and Government Donations," *American Journal of Agricultural Economics* 73(1991): 212-221.
- Gould, B.W., and H.J. Villarreal. "Adult Equivalence Scales and Food Expenditures: An Application to Mexican Beef and Pork Purchases," *Applied Economics* 34(2002): 1075-88.
- Gould, B.W., and H.J. Villarreal. "An Assessment of the Current Structure of Food Demand in Urban China," *Agricultural Economics* 34(2006): 1-16.
- Greene, W. *Econometric Analysis*. New York: Prentice Hall (2003).
- Guo, X., T.A. Mroz, B.M. Popkin, and F. Zhai. "Structural Change in the Impact of Income on Food Consumption in China, 1989-1993," *Economic Development and Cultural Change* 48(2000): 737-60.
- Hausman, J.A., W.K. Newey, and J.L.Powell. "Nonlinear Errors in Variables: Estimation of Some Engel Curves," *Journal of Econometrics* 65(1995): 205-233.
- Heien, D. and G. Pompelli. "The Demand for Beef Products: Cross-Section Estimation of Demographic and Economic Effects," *Western Journal of Agricultural Economics* 13(1988): 37-44.
- Houthaker, H.S. "Compensated Changes in Quantities and Qualities Consumed," *Review of Economic Studies* 19(1952): 155-64.
- Hsu, H.H., W.S.Chern, and F. Gale. "How Will Rising Income Affect the Structure of Food Demand?" In F. Gale, ed. *China's Food and Agriculture: Issues for the 21st Century*, F. Gale (ed.). Washington DC: Economic Research Service, USDA (2001).

- Lewbel, A. "A Unified Approach to Incorporating Demographic or Other Effects into Demand Systems," *Review of Economic Studies* 70(1985): 1-18.
- Moro, D. and P. Sckokai. "Heterogeneous Preferences in Household Food Consumption in Italy," *European Review of Agricultural Economics* 27(2000): 305-323.
- Muellbauer, J. "Community Preferences and the Representative Consumer," *Econometrica* 44(1976): 525-543.
- Myrland, O., D. Dong, and H.M. Kaiser. "Quantity and Quality Effects of Generic Advertising: Salmon in Norway," *Agribusiness: An International Journal* 23(2006): 85-100.
- National Bureau of Statistics (2003). Available at: <http://www.stats.gov.cn/>.
- Nelson, J. "Quality Variation and Quantity Aggregation in Consumer Demand for Food," *American Journal Agricultural Economics* 73(1991): 1204-12.
- Perali, F. *Consumption, Demographics and Welfare Measurement: Metric and Policy Applications to Colombia*, Ph.D. Dissertation. Madison: University of Wisconsin (1993).
- Perali, F. and J.P. Chavas. "Estimation of Censored Demand Equations from Large Cross-Section Data," *American Journal of Agricultural Economics* 82(2000): 1022-1037.
- Pollak, R. and T. Wales. "Demographic Variables in Demand Analysis" *Econometrica* 49(1981): 1533-45.
- Prais, S.J., and H.S. Houthakker. *The Analysis of Family Budgets*. Cambridge: Cambridge University Press (1955).
- Sabates, R., B.W. Gould, and H.J. Villarreal. "Household Composition and Food Expenditures: A Cross Country Comparison," *Food Policy* 26(2001): 571-586.
- Shono, C. N. Suzuki, and H.M. Kaiser. "Will China's Diet Follow Western Diets?" *Agribusiness: An International Journal* 16(2000): 271-79.
- Theil, H. "Qualities, Prices and Budget Inquiries," *Review of Economic Studies* 19(1953): 129-147.
- Wang, Z. "China and Taiwan Access to the World Trade Organization: Implications for U.S. Agriculture and Trade," *Agricultural Economics* 17(1997): 239-264.
- Wales, T.J. and A.D. Woodland. "Sample Selection and the Estimation of Labor Supply Functions," *International Economic Review* 21(1980): 437-468.
- Yen, S., B. Lin, and D.M. Smallwood. "Quasi- and Simulated-Likelihood Approaches to Censored Demand Systems: Food Consumption by Food Stamp Recipients in the United States," *American Journal of Agricultural Economics* 85(2003): 458-478.

Appendix: Additional Tables

Table A1: Summary of Share Equation Estimated Coefficients, Associated Standard Errors and Equation R²

Variable	BF		PK		PLT		SFD		VEG		FR		RIC	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Price Coefficients (γ_{ij})														
BF	0.0033	0.0020	0.0086	0.0021	-0.0005	0.0013	0.0023	0.0017	-0.0007	0.0015	-0.0004	0.0015	0.0011	0.0017
PK			0.0469	0.0068	0.0026	0.0029	-0.0119	0.0032	0.0070	0.0032	-0.0081	0.0029	-0.0031	0.0041
PLT					0.0077	0.0028	0.0014	0.0020	0.0015	0.0020	-0.0018	0.0018	-0.0099	0.0022
SFD							0.0335	0.0024	-0.0065	0.0022	0.0036	0.0021	-0.0104	0.0025
VEG									0.0392	0.0027	-0.0061	0.0019	0.0013	0.0024
FR											0.0231	0.0028	-0.0101	0.0021
RIC													0.0215	0.0047
Expenditure Coefficients (β_i, λ_i)														
ln(m)	0.0147	0.0064	0.0370	0.0074	0.0083	0.0051	-0.0074	0.0057	-0.0063	0.0045	-0.0276	0.0045	-0.0028	0.0044
(ln(m)) ²	-0.0014	0.0014	-0.0058	0.0016	-0.0004	0.0011	0.0056	0.0011	0.0007	0.0010	0.0043	0.0010	0.0011	0.0010

(Continued)

Table A1: Summary of Share Equation Estimated Coefficients, Associated Standard Errors and Equation R^2 (continued)

Variable	OGR		DA		EGG		FAT		OTH	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Price Coefficients (γ_{ij})										
BF	-0.0005	0.0017	-0.0034	0.0015	-0.0010	0.0009	-0.0026	0.0011	-0.0062	0.0020
PK	0.0007	0.0031	-0.0129	0.0024	0.0052	0.0031	0.0012	0.0029	-0.0362	0.0033
PLT	0.0016	0.0019	0.0031	0.0017	0.0040	0.0014	-0.0023	0.0015	-0.0073	0.0022
SFD	0.0032	0.0021	-0.0020	0.0020	-0.0063	0.0014	-0.0007	0.0016	-0.0062	0.0022
VEG	-0.0158	0.0020	-0.0051	0.0017	-0.0078	0.0016	0.0028	0.0017	-0.0099	0.0022
FR	0.0000	0.0021	0.0045	0.0018	-0.0084	0.0014	-0.0032	0.0014	0.0068	0.0022
RIC	0.0066	0.0026	-0.0063	0.0018	0.0153	0.0025	0.0083	0.0024	-0.0142	0.0023
OGR	-0.0050	0.0030	0.0067	0.0017	-0.0056	0.0016	-0.0069	0.0016	0.0149	0.0024
DA			0.0323	0.0029	-0.0033	0.0011	-0.0027	0.0013	-0.0110	0.0021
EGG					0.0118	0.0033	0.0001	0.0017	-0.0042	0.0016
FAT							0.0107	0.0024	-0.0046	0.0018
OTH									0.0782	0.0036
Expenditure Coefficients (β_i, λ_i)										
$\ln(m)$	-0.0344	0.0049	0.0125	0.0059	-0.0028	0.0032	0.0087	0.0041	0.0001	0.0061
$(\ln(m))^2$	0.0048	0.0012	-0.0024	0.0013	0.0002	0.0007	-0.0007	0.0009	-0.4644	0.0140

(Continued)

Table A1: Summary of Share Equation Estimated Coefficients, Associated Standard Errors and Equation R² (continued)

Variable	BF		PK		PLT		SFD		VEG		FR		RIC	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Demographic Characteristics (α_i, Γ_{is})														
Intercept	0.0619	0.0106	0.0421	0.0117	0.0451	0.0084	0.0003	0.0106	0.0688	0.0091	0.0768	0.0097	0.0419	0.0094
1/HH_SIZ E	0.0076	0.0062	0.0279	0.0071	0.0051	0.0050	0.0062	0.0060	-0.0038	0.0048	0.0040	0.0050	-0.0143	0.0046
Ln(HH_I NC)	0.0026	0.0010	-0.0047	0.0012	-0.0007	0.0008	-0.0040	0.0010	-0.0033	0.0008	0.0082	0.0009	-0.0095	0.0008
D_SENIO R	-0.0020	0.0013	0.0015	0.0013	0.0004	0.0009	-0.0005	0.0011	0.0007	0.0010	-0.0040	0.0012	0.0035	0.0010
D_LT_6	-0.0008	0.0017	-0.0026	0.0018	-0.0035	0.0013	-0.0008	0.0017	-0.0051	0.0014	-0.0001	0.0016	-0.0043	0.0016
D_6_14	0.0012	0.0011	-0.0003	0.0012	-0.0017	0.0009	-0.0018	0.0011	-0.0022	0.0010	0.0009	0.0011	-0.0026	0.0010
D_REFRI G	0.0039	0.0012	-0.0018	0.0014	-0.0008	0.0010	0.0019	0.0015	-0.0021	0.0010	0.0036	0.0012	-0.0021	0.0010
D_GD	0.0072	0.0022	-0.0075	0.0028	0.0142	0.0017	0.0188	0.0019	0.0078	0.0020	-0.0096	0.0022	0.0176	0.0027
D_JS	0.0013	0.0017	0.0005	0.0020	0.0003	0.0013	0.0143	0.0015	0.0045	0.0015	-0.0075	0.0016	0.0214	0.0021
D_HN	-0.0029	0.0016	0.0083	0.0018	-0.0027	0.0012	-0.0188	0.0025	0.0109	0.0014	0.0031	0.0016	0.0058	0.0021
D_HLJ	0.0057	0.0016	0.0014	0.0020	-0.0169	0.0014	-0.0091	0.0018	0.0148	0.0014	0.0118	0.0015	0.0221	0.0020
Ln(AGE)	-0.0099	0.0027	0.0053	0.0027	-0.0073	0.0021	0.0032	0.0026	0.0093	0.0022	-0.0074	0.0023	0.0064	0.0022
R2	0.088		0.029		0.291		0.385		0.081		0.195		0.231	

(Continued)

Table A1: Summary of Share Equation Estimated Coefficients, Associated Standard Errors and Equation R² (continued)

Variable	OGR		DA		EGG		FAT		OTH	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Demographic Characteristics (α_i, Γ_{is})										
Intercept	0.0285	0.0099	0.0171	0.0105	0.0382	0.0054	0.0162	0.0063	0.5632	0.0132
1/HH_SIZE	-0.0488	0.0058	0.0294	0.0062	0.0001	0.0031	-0.0008	0.0035	-0.0125	0.0067
Ln(HH_INC)	-0.0070	0.0009	0.0117	0.0010	-0.0021	0.0005	-0.0066	0.0006	0.0154	0.0011
D_SENIOR	0.0009	0.0012	-0.0003	0.0013	0.0005	0.0006	0.0007	0.0007	-0.0015	0.0015
D_LT_6	-0.0028	0.0014	0.0101	0.0016	-0.0002	0.0008	0.0002	0.0009	0.0099	0.0019
D_6_14	0.0012	0.0011	0.0037	0.0012	0.0001	0.0006	-0.0014	0.0006	0.0030	0.0013
D_REFRIG	-0.0068	0.0010	0.0042	0.0015	-0.0017	0.0006	-0.0031	0.0006	0.0047	0.0014
D_GD	-0.0087	0.0025	-0.0201	0.0023	-0.0120	0.0016	0.0010	0.0015	-0.0089	0.0025
D_JS	-0.0252	0.0018	-0.0076	0.0015	-0.0079	0.0008	0.0031	0.0010	0.0027	0.0017
D_HN	0.0156	0.0014	-0.0120	0.0018	-0.0025	0.0006	0.0087	0.0008	-0.0134	0.0018
D_HLJ	-0.0046	0.0015	-0.0090	0.0016	-0.0045	0.0008	0.0057	0.0010	-0.0174	0.0018
Ln(AGE)	0.0110	0.0024	-0.0099	0.0024	0.0011	0.0013	0.0018	0.0015	-0.0036	0.0031
R2	0.436		0.144		0.332		0.186		0.073	

Note: The values that are shaded identify coefficients that are statistically significant at the 0.01 level.

Table A2: Summary of Unit Value Estimated Coefficients, Associated Standard Errors and Equation R²

Variable	BF		PK		PLT		SFD		VEG		FR		RIC	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Demographic Characteristics														
Intercept	2.9264	0.082	2.1889	0.0191	2.1824	0.0515	1.4680	0.0602	-0.4922	0.0496	-0.2459	0.0598	0.5713	0.0289
Ln(HH_SIZE)	0.0444	0.0349	0.0232	0.009	0.0368	0.0235	0.0967	0.0284	0.0785	0.0228	0.0327	0.0254	-0.0095	0.0130
Ln(FAH)	0.0925	0.0213	0.0589	0.0048	0.1394	0.0127	0.2501	0.0150	0.2868	0.0126	0.2538	0.0150	0.0713	0.0074
ADVANCE	0.0417	0.0232	0.0171	0.0053	0.0271	0.0139	0.0583	0.0167	0.0159	0.0141	0.0518	0.0167	-0.0057	0.007
LHS	0.0228	0.0207	-0.0137	0.0049	-0.0629	0.0126	-0.0855	0.0158	-0.1047	0.0134	-0.0761	0.0145	-0.0277	0.0069
PER_6_14	0.0357	0.0632	0.0144	0.0147	0.1282	0.0361	0.1049	0.0454	0.2692	0.0394	0.2186	0.0454	0.0259	0.0196
PER_SENIOR	0.0813	0.0294	-0.0112	0.008	-0.0276	0.0204	0.0091	0.0251	-0.1019	0.0205	-0.0979	0.0226	-0.0138	0.0137
PER_LT_6	0.1981	0.1041	0.0039	0.0227	0.0299	0.0580	0.1891	0.0779	0.3602	0.0572	0.4665	0.0743	0.0714	0.0316
D_GD	0.5244	0.0323	0.3159	0.0078	0.1452	0.0264	0.2228	0.0267	0.5178	0.0282	1.0053	0.0270	0.3383	0.0105
D_JS	0.4695	0.0260	0.0352	0.0070	-0.1192	0.0204	0.1196	0.0207	0.1887	0.0210	0.0253	0.0212	-0.0612	0.0137
D_HN	-0.1713	0.0317	0.0075	0.0074	-0.1402	0.0187	-0.1525	0.0224	-0.2152	0.0227	-0.2704	0.0236	-0.0108	0.0110
D_HLJ	-0.2442	0.0287	-0.0223	0.0063	-0.2170	0.0156	-0.0807	0.0196	0.0074	0.0181	0.3117	0.0216	-0.0151	0.0108
R2	0.373		0.624		0.295		0.356		0.599		0.688		0.527	

(Continued)

Table A2: Summary of Unit Value Estimated Coefficients, Associated Standard Errors and Equation R² (continued)

Variable	OGR		DA		EGG		FAT		OTH	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Demographic Characteristics										
Intercept	0.6386	0.0633	4.1023	0.0704	1.3766	0.0236	1.7807	0.0385	3.8278	0.0562
Ln(HH_SIZE)	-0.0353	0.0284	-0.0315	0.0287	0.0134	0.0102	-0.0107	0.0165	-0.1433	0.0243
Ln(FAH)	0.1403	0.0157	0.1798	0.0174	0.0322	0.0059	0.1125	0.0106	0.3106	0.0139
ADVANCE	0.0440	0.0159	0.0254	0.0195	0.0138	0.0060	0.0249	0.0106	0.0740	0.0147
LHS	-0.1265	0.0149	-0.0598	0.0171	-0.0002	0.0058	-0.0326	0.0097	-0.0071	0.0134
PER_6_14	0.3443	0.0439	0.1388	0.0468	-0.0039	0.0169	0.0126	0.0275	-0.0009	0.0425
PER_SENIOR	-0.1310	0.0255	-0.0503	0.0245	-0.0119	0.0098	-0.0023	0.0146	0.0365	0.0207
PER_LT_6	0.3410	0.0695	0.3258	0.0761	0.0648	0.0259	0.0370	0.0471	0.1610	0.0655
D_GD	0.8306	0.0276	-0.1597	0.0306	0.3160	0.0096	0.1965	0.0154	-0.2222	0.0221
D_JS	0.3246	0.0216	-0.0314	0.0285	0.1086	0.0092	-0.1777	0.0117	-0.1423	0.0186
D_HN	-0.1289	0.0283	-0.0085	0.0265	0.0287	0.0102	-0.0493	0.0123	0.0639	0.0224
D_HLJ	0.0989	0.0221	-0.0782	0.023	0.0196	0.0093	-0.3862	0.0136	-0.0095	0.0187
R2	0.567		0.082		0.484		0.556		0.265	

Note: The values that are shaded identify coefficients that are statistically significant at the 0.01 level.