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Applied Economics at the University of Minnesota

@ApEcMN



FROM THE DEPARTMENT HEAD



As I write this column, it is the day before Thanksgiving. I've read that being grateful can help you live longer, so here's to carrying the spirit of Thanksgiving in to the new year. Here are a few thoughts about what makes me grateful about our department. I'd love to hear yours.

I'm grateful to be a part of a legacy of excellence that was started long ago and maintained with clear-eyed focus over the generations. I had the opportunity this summer to talk with Lore and Leah Ruttan about their parents, Vernon and Marilyn Ruttan. I learned that Vernon once wanted to own a carabao, a water buffalo used in the Philippines to work the rice paddies and clear forests. I talked with Ron and Sharron Knutson, who reminisced about the days that Marian Raup would honk the horn outside of Haecker Hall and Phil would come running. I got an email from an anonymous donor who wants to honor Lee Martin for his expert advising by establishing a graduate fellowship. Another wants to honor Terry Roe. These were reminders of the people who built our department with their ideas and commitment to students.

I'm grateful for the energy and expertise of our dedicated faculty. I had the opportunity to visit a number of classes in the fall semester. Ben Senauer took his development class on a virtual travel tour of Colombia. Steve Miller somehow incorporated pictures of kittens into the slides for his econometrics class. Jason Beddow teaches students in two continents—his class is transmitted to the University of South Africa in Pretoria. Mike Boland seemed to make personal connections with all the students in his farm management class. Pamm Smith engaged students on the very first day, so much that it seemed that the class had been together for an entire semester already. Hikaru Peterson has students doing their very own research projects in her food marketing class. These are the every-day activities—preparing for class, delivering a lecture, assigning and assessing student work—that help our students learn and develop into the confident and accomplished alumni that we celebrate.

I'm grateful for our alumni. For the very first time in my years at Minnesota, I attended homecoming and got a chance to reconnect with students

I hadn't seen for a while. For those of you who are in town in October, I heartily recommend the CFANS homecoming event Beer & Brats at the Bell on the Bell Museum lawn. This year, celebrating Mike Martin's Outstanding Achievement Award just added to the festive atmosphere. Also, our alumni have responded in numbers to the call to become mentors to our current students through the CFANS Mentor Program, committing to share their experiences and perspectives with students now in our programs.

I'm grateful for our students. They all choose to devote their time and energy to the pursuit of a degree in our department. While they share an academic interest in applied economics or agricultural business, their talents and experiences are many and varied, making our department an interesting and vital place. We have students on the wrestling team, students in the marching band, students serving as peer leaders, and students engaged in military service. I'm especially grateful to Andrew Juneau, a current applied economics major, who patiently and expertly worked with our staff to create a new web site for our department. Go to www.apec.umn.edu to check out his work!

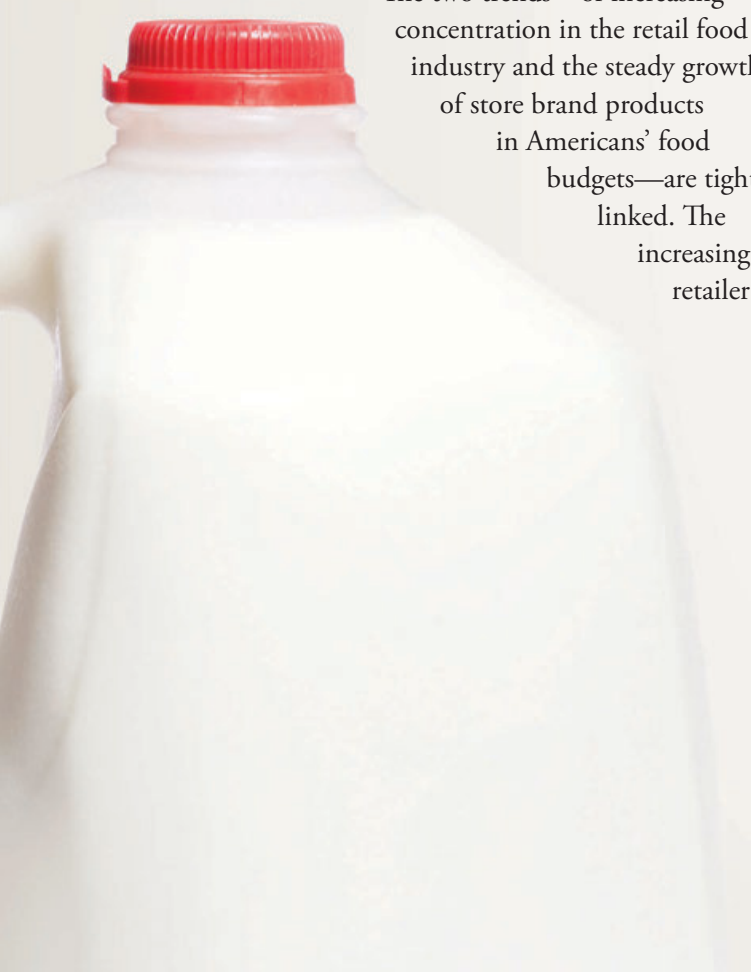
I'm grateful—and proud—to be able to come to work, every day, in Ruttan Hall. I'm grateful for the opportunities I have had to see what makes our department truly unique and outstanding. I'm grateful for the work and experiences it took to build it to what it has become and to be a part of that legacy moving forward. We hope this issue you find you warm, well and surrounded by reasons to be grateful.

Frances Homans

Department of Applied Economics

Grocery Retailing: Growth of

Do store brands in food retailing industry contribute to retailers' market power? Retailers own store brands to compete with national brands in product markets, differentiate their stores from others, and improve their bargaining position for procurement of national brands. Finding out whether store brands allow retailers to exert market power isn't a simple matter because increasing concentration and consolidation through mergers and acquisitions in the grocery retailing industry is happening at the same time as the steady growth in store brand products. A natural experiment in a major metropolitan area has allowed us to investigate the relationship between increasing retailer concentration and store brand growth and their effects on food prices.



The two trends—of increasing concentration in the retail food industry and the steady growth of store brand products in Americans' food budgets—are tightly linked. The increasing retailer

concentration raises concerns about retailers' market power exertion in local markets. It also adds to the growth of store brand products in many food categories through an individual retailer's expanded market presence. The growth of store brands can cause opposing effects on product and retailer competition. On the one hand, store brand growth could raise brand level competition due to increased variety and their generally low prices. On the other hand, store brand growth could further add to the increasing industry concentration and retailer market power. It could add to industry concentration if small and medium size national brands cannot compete with store brands for shelf space and exit the market. Also, because store brands are owned and exclusively marketed by a retailer they could be used as an instrument to exert market power.

We look at a large US metropolitan area where a grocery retailer was acquired. In the acquisition, the market share of acquiring firm's store brands increased. The acquisition is unique because the acquired retailer only had stores in the metropolitan area and sold most of its stores to the acquiring firm. This is an important feature, because it helps us identify the cause of the price effects of the acquisition. We use store scanner data that includes quantity and price information at the Universal Product Code (UPC) level. We focus on two product categories – fluid milk and Ready-to-Eat cereal. These categories are selected because they are typical examples of high volume, fast-moving products. Also, they represent different competitive environments. The Ready-to-Eat cereal market is dominated by national brands and is highly differentiated. In contrast, store brands dominate the fluid milk market and the products are relatively homogeneous.

We ask the question: how do store brand prices change

BY WILL SECOR AND METIN ÇAKIR

Store Brands & Food Prices

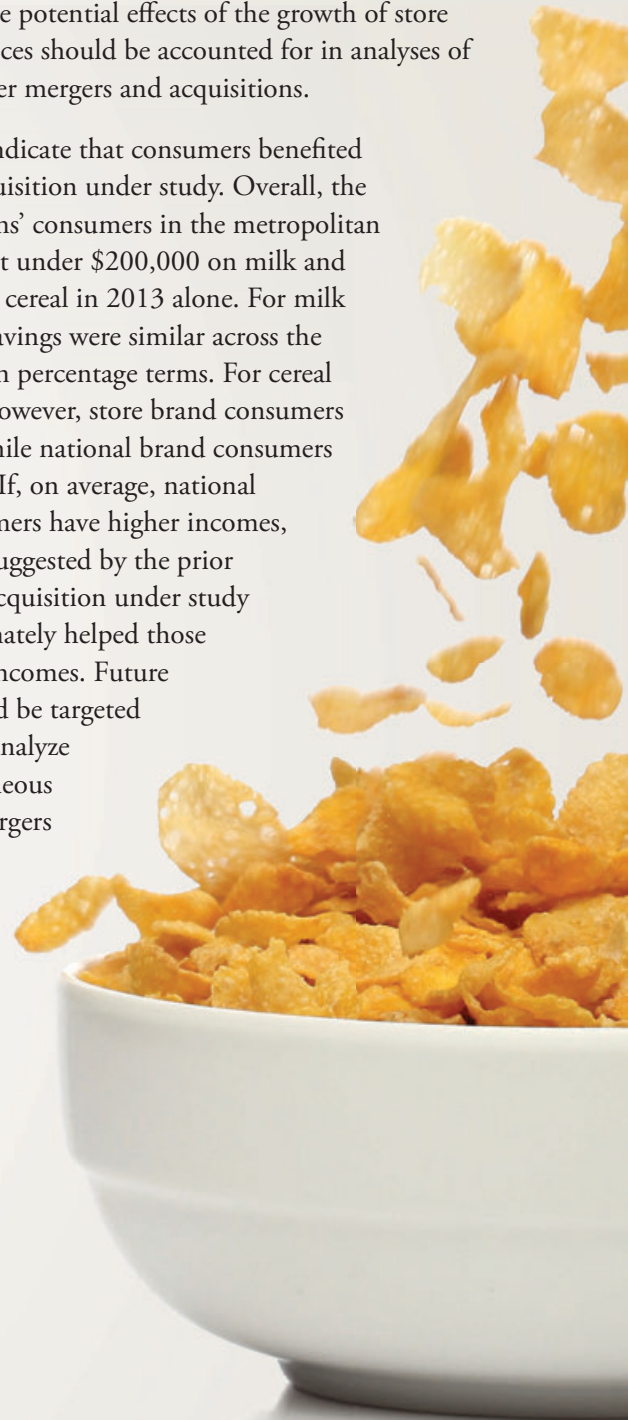
in a product category relative to those of national brands after the acquisition? To answer this question, we compare national and store brand product prices that are affected by the acquisition to the prices of the same products that are not affected by the acquisition. The results show that average prices decreased around 0.3% for fluid milk and 0.6% for Ready-to-Eat cereal per unit because of the acquisition. The overall decrease in average prices indicates that either the acquiring firm achieved significant cost savings or retailer competition intensified due to the acquisition, or a combination of both. For example, the acquiring firm might have achieved cost savings due increased scale of production or procurement. Alternatively, the retailer competition may have intensified, requiring the acquiring firm to reduce prices. For example, a competitor may respond to the acquisition by lowering prices because the acquiring firm now represents a larger threat to its own market share.

Next, we investigate the break out of the overall acquisition effect by national and store brands in the two product categories. For milk, the results did not show any statistically significant difference between changes in store and national brand prices due to the acquisition; the acquiring firm reduced prices across the board for all brands. The cereal category is a different story: results show that the national brand prices decreased by approximately 1% due to the acquisition with no significant changes in the prices of the store brands.

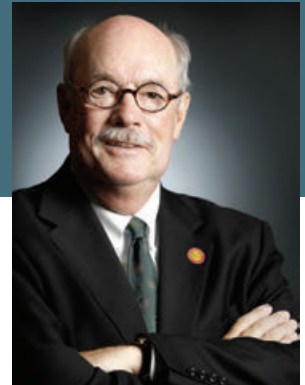
These results provide strong evidence that the growth of store brands in highly differentiated product categories could allow retailers to improve their market power. We do not find such evidence in the fluid milk category, which is composed of relatively homogeneous products. Furthermore, the results show that if aggregate price changes were analyzed, the overall cost savings due to the

acquisition would have masked this market power effect. In general, the potential effects of the growth of store brands on prices should be accounted for in analyses of grocery retailer mergers and acquisitions.

Our results indicate that consumers benefited from the acquisition under study. Overall, the acquiring firms' consumers in the metropolitan area saved just under \$200,000 on milk and Ready-to-Eat cereal in 2013 alone. For milk consumers, savings were similar across the brand types in percentage terms. For cereal consumers, however, store brand consumers were hurt, while national brand consumers were helped. If, on average, national brand consumers have higher incomes, as generally suggested by the prior studies, the acquisition under study disproportionately helped those with higher incomes. Future research could be targeted to explicitly analyze the heterogeneous impact of mergers on consumer groups.



MIKE MARTIN: OUTSTANDING ACHIEVEMENT AWARD



Michael Martin, PhD graduate of the Department of Applied Economics, was honored on September 25 with a presentation of the University of Minnesota's Outstanding Achievement Award. The Outstanding Achievement Award is conferred on graduates or former students who have attained unusual distinction in their profession or in public service and who have demonstrated outstanding achievement and leadership.

Mike received his PhD from our department in 1977 and joined the faculty in the Department of Agricultural and Resource Economics at Oregon State immediately afterwards as an assistant professor. He rose to the rank of Professor there before returning here to the University of Minnesota in 1992. He served as Associate Dean for Research, then as Dean of the College of Agricultural, Food and Environmental Sciences and Vice President for Agricultural Policy. He headed south to the University of Florida in 1998, where he served as Vice President for Agriculture and Natural Resources until 2004, when he was named President of New Mexico State University. In 2008 he was named Chancellor of Louisiana State University. Then, in 2012, he was named Chancellor of the Colorado State University System. He is currently Chancellor Emeritus and a Senior Fellow of CSU's Colorado Futures Center.

In each of his administrative positions, Mike's leadership style has been characterized by unyielding commitment

to the core values of the land-grant mission; by quick, clear, and accurate assessment of issues and alternatives; by creativity in seeking win-win solutions to challenges and conflicts; and by care and concern for the people around him. He approaches each situation with open-minded common sense and a wonderful sense of humor. He's been a strong advocate for increased engagement of traditionally underserved communities in higher education and in agricultural and natural resources industries.

Mike is recognized around the country and around the world not only for his dedication to the land-grant mission but also for his ability to explain its historical roots, its contributions, and its potential for future contributions to audiences of all sorts. In 2007 he received the Justin Smith Morrill Memorial Award from the U.S. Department of Agriculture's Cooperative State Research, Education, and Extension Service in recognition of his service and his contributions to public understanding of the land-grant system. Mike was just the sixth recipient of this prestigious award, which was established in 1980.

Mike's family—wife Jan, son Sam, daughter Amanda and son-in-law Paul—joined us on campus to celebrate his award. We are proud to recognize Mike not only as an outstanding alumnus of our department, but as an educator, mentor and friend.

This August, Professor Terry Hurley was named the Austin A. Dowell Endowed Professor in Applied Economics. The Austin A. Dowell faculty position was established with an endowment given to the University in a bequest by Hannah Kellogg Dowell in memory of her father, Dr. Austin A. Dowell, a department alum and former faculty member.

Austin Allyn Dowell and his wife Isabel Dyer met when they were completing their undergraduate degrees at Iowa State University. Dr. Dowell went on to receive a PhD. in agricultural economics from the University of Minnesota in 1932. After seven years at the University of Minnesota Crookston, he transferred to the St. Paul campus as a professor in the Department of Agricultural Economics. All four Dowell daughters—Hannah, Margaret (Gravatt), Ruth (Myers), and Annette—earned degrees from the University of Minnesota.

Dr. Dowell was well known for his interest in the American farmer and export markets. His book on this topic, written with O.B. Jesness and published in 1934, was concerned with whether opening export markets could help solve depression-era problems of rural poverty caused, in part, by over-production.

Terry Hurley is the Associate Director of the International Science Technology Policy and Practice (InSTePP) center in the department. His work focuses on new agricultural technologies and how farmers can profitably use these technologies while managing their potential pitfalls. His research and teaching are widely recognized for their excellence. In recent years, he received two research awards from the Australian Agricultural & Resource Economics Society and the CFANS Distinguished Graduate Teaching Award for 2015. Hurley's work surely would have interested Dr. Dowell if he were to observe American agriculture today. We are delighted to recognize Terry Hurley and his work as a way to honor Dowell's legacy.

All of us in the Department of Applied Economics are very grateful to Ms. Dowell for her extremely generous gift that helps us build and maintain excellence in the Department of Applied Economics.

TERRY HURLEY NAMED DOWELL CHAIR



JASON KERWIN

NEW FACULTY SPOTLIGHT

Jason Kerwin became a member of the Department of Applied Economics in 2015. Jason is a development economist, specializing in the use of randomized field experiments to understand health and labor markets in sub-Saharan Africa. His research topics fall into two broad areas: how people

form subjective expectations and how those beliefs affect their decision making processes; and labor markets in rural Africa, broadly defined – from choices people make about their effort at work and how to spend their wages to their decisions about their own and their children's education. Jason went to Stanford University for his undergraduate and master's degrees and to the University of Michigan for his PhD.



STEVE MILLER

NEW FACULTY SPOTLIGHT

Steve Miller started his career in computer science, earning his undergraduate degree at Stanford. After graduation, he went on to work at Google doing product management in a variety of areas, including fraud prevention in their publisher ad network, mobile advertising, helping non-profit organizations use Google's mapping tools, and ultimately adding ocean features to Google Earth. That last project piqued an interest in fisheries,

spatial management tools, and more broadly, natural resource and environmental economics, prompting a return to school. He got his PhD in 2015 from UC Santa Barbara, and started this fall in Applied Economics at the University of Minnesota. His research continues to focus on fisheries, but also includes impacts of climate policies on technological development and collaborations with ecologists on biodiversity-related questions.



Hikaru Peterson joined the Department in August 2015 after a 15-year career at Kansas State University. She holds a BA in Economics from University of Tokyo, and MS and PhD degrees in Agricultural Economics from Cornell University. Peterson's general area of expertise is in agricultural marketing and consumer economics.

Hikaru works on issues related to food as it is produced on the farm and travels through the system. With her focus on issues in sustainable agriculture and food systems, she is examining value-added marketing channels that tout attributes of sustainability: environmental stewardship, economically viable farming operations, and socially just treatment of labor. Currently, she serves as an editor of the *Journal of Agricultural and Resource Economics*. She is looking forward to exploring the ample land and foodscape of Minnesota with her family.



HIKARU PETERSON

NEW FACULTY SPOTLIGHT

Jeffrey M. Peterson joined the University of Minnesota in 2015 as the Director of the University of Minnesota's Water Resources Center, a partnership of University Extension and the College of Food, Agricultural, and Natural Resource Sciences. As Director, he provides overall leadership for the center's outreach, teaching, and research activities involving faculty and students across the university. He holds a faculty appointment in the Department of Applied Economics. He earned his PhD. from Cornell University in Agricultural and Resource Economics. Prior to coming to Minnesota, he held a faculty position in the Department of Agricultural Economics at Kansas State. He is the recipient of national awards for his research on environmental policy analysis, focusing on water use and water quality impacts from agriculture. He currently serves as an editor of the *Journal of Agricultural and Resource Economics*.



JEFFREY PETERSON

NEW FACULTY SPOTLIGHT

FELLOWSHIPS AND SCHOLARSHIPS

LITTERMAN FELLOWSHIP

Tianzeng Xu

Dr. Mary Litterman and Dr. Robert Litterman, both graduates of the University of Minnesota, strongly believe in encouraging and fostering graduate students. This fund provides supplemental support for a graduate student studying in the Department of Applied Economics.

HSIEH FELLOWSHIP

Sebastien Anti

Jose Casco Guerra

Sinafikeh Gemessa

The Hsieh Graduate Fellowship fund was established by the children of the late Sam Chung Hsieh, who received his PhD. from the University of Minnesota in production economics. It serves both to honor and celebrate his extraordinary legacy and to provide funding for full-time graduate students enrolled in the Applied Economics Graduate Program at the University of Minnesota.

COCHRANE FELLOWSHIP

Gianna Short

The Willard W. Cochrane Fellowship was created to honor and celebrate the life of notable agricultural economist and University of Minnesota Alumni, Dr. Willard Cochrane. This fund provides financial support to full time graduate students enrolled in the College of Food, Agricultural and Natural Resource Sciences who are studying applied economics.

SCHUH FELLOWSHIP

Akinori Kitsuki

Gianna Short

Maria Ignez Schuh created this fund in 2008 in memory of her husband Edward Schuh. The fund supports PhD. students in the Applied Economics Graduate Program who have an interest in international food and agricultural policy.

WILLIS L. AND DOROTHY L. PETERSON GRADUATE FELLOWSHIP

Sebastien Anti

Created by Dorothy L. Peterson in 2006 to celebrate the legacies of Willis and Dorothy Peterson, the fellowship supports graduate students in the Department of Applied Economics.

COBANK SCHOLARSHIP FUND

Johanna Knorr, AFBM

Brett Pfarr, AFBM

The CoBank Scholarship Fund accepts annual gifts from CoBank for undergrad scholarships in the Department of Applied Economics for students studying agribusiness, cooperatives or a related discipline.

ROUTE-CHRISTIENSEN SCHOLARSHIP

Addison Beyers, Applied Economics

Meredith Leung, Applied Economics

Braden Trippel, AFBM

The Route-Christiansen Scholarship provides annual scholarships to upper-division undergraduates with an interest in agricultural finance.

WILLIS PETERSON UNDERGRADUATE SCHOLARSHIP

Tyler Campbell, Applied Economics

Carmen Kryzer, AFBM

This fund celebrates Willis Peterson's legacy of excellent teaching at the University of Minnesota by helping deserving students continue their education.

YOST FAMILY SCHOLARSHIP

Paige Durhman, AFBM

Created in 2014 by Michael and Sandra Yost, this fund supports undergraduate students in the College of Food, Agricultural and Natural Resource Sciences who are studying applied economics and plan to pursue careers in production agriculture or agribusiness. It is especially intended for incoming freshman who graduated in the top quarter of their high school classes from rural Minnesota, Iowa, Wisconsin, South Dakota, or North Dakota.

APPLIED ECONOMICS CENTENNIAL UNDERGRADUATE SCHOLARSHIP FUND

Andrew Juneau, Applied Economics

The purpose of this fund is to support undergraduate student scholarships in CFANS. Preference is given to students with an interest in pursuing applied economics as a course of study.

Erland Herfindahl, who received his MS in Applied Economics from the University of Minnesota in 2005, is the Director for African Affairs at the Office of the U.S. Trade Representative (USTR) in the Executive Office of the President. He is responsible for advancing bilateral, regional and multilateral U.S. initiatives to enhance U.S. trade and economic cooperation with East and Central African countries. This includes measures to open markets and improve investment climates, implementation of the African Growth and Opportunity Act (AGOA), and leading trade negotiations with sub-Saharan African nations.

Prior to joining USTR, Erland worked at the United States International Trade Commission, where he lead and participated in research teams preparing reports for Congress and the Administration related to a variety of topics including global services trade, free trade agreements, and small and medium sized enterprises, among other topics.

For more information, visit <https://ustr.gov/about-us/about-ustr>.



ALUMNI CONNECTION

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THE UNIVERSITY OF MINNESOTA IS AN EQUAL OPPORTUNITY EDUCATOR AND EMPLOYER. THE UNIVERSITY'S MISSION, CARRIED OUT ON MULTIPLE CAMPUSES AND THROUGHOUT THE STATE, IS THREEFOLD: RESEARCH AND DISCOVERY, TEACHING AND LEARNING, AND OUTREACH AND PUBLIC SERVICE.