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The Demand for Red Meats and Related Foods in Canada

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Table of Contents

1. Introduction 1
A. Background 1
B. Objectives 1
C. Outline of Research Design, Methodology and Analyses 2
D. The Theoretical Framework of Consumer Behavior and Demand Applied in the Study 3

2. Single Equation Models of Market Demand for Meat 4
A. Introduction 4
B. Overview of Previous Studies of Canadian Demand for Meat 4
C. The Specification of the Income Variable in Single-Equation Demand Models 5
D. Exogeneity Tests of Functions Estimating Market Demand for Meat 8
E. Elasticity Estimates and Discussion 12
F. Prediction Performance of the Demand Models 18
G. Comparison With Other Empirical Results 21
H. Conclusions 21

3. Consumption Expenditure Allocation Over Meat Groups: An AIDS Analysis with Habit Formation and Structural Change 23
A. Introduction 23
B. Model Specification 25
C. The Data and Estimation Procedures 29
D. Empirical Results and Discussion 31
E. Testing for Structural Change 35
F. Conclusions 38

4. Meat Expenditure Share Behavior in Canada: A Dynamic Translog Demand System Analysis 39
A. Introduction 39
B. The Translogarithmic Demand System and Extension 39
C. Data and Estimation of the Models 42
D. Empirical Results and Discussion 43
E. Testing the Hypotheses of Structural Change 46
F. Summary and Conclusion 48

5. General Discussion and Conclusions 50
A. Summary and Implications 50
B. A Comparison of Results of the Systems and Single-equation Models 54
C. Future Research on Applied Demand Analyses 59
D. Implications of the Results of the Study for the Western Livestock Industry 62

6. References 63

7. Appendix 1 68

Table of Tables

Table 1. Results of Non-Nested J Tests of Income Variables and Expenditures 8

Table 2. Exogeneity Test Results of Each Quantity- Price-dependent Demand for Meat Equations 12

Table 3. Elasticity Estimates from the Double Logarithmic Models 14

Table 4. Own-Price and Expenditure Elasticity Estimates of Demand for Meat Based on Model 1a with Time Dummy Variables 15

Table 5. Single Equation Estimates of Demand for Meat Based on Model 2a 17

Table 6. Final Prediction Errors for Model 1 and Model 2 Series 19

Table 7. Own-Price and Income Elasticities of Canadian Demand for Meats Reported in Selected Studies 20

Table 8. Results of Likelihood Ratio Tests for Homogeneity and Symmetry 31

Table 9. Maximum Likelihood Estimates of the Structural Parameters of AIDS for Beef, Pork, and Chicken 33

Table 10. Uncompensated Price and Expenditure Elasticities 35

Table 11. Results of Likelihood Ratio Tests for Structural Change 36

Table 12. Effects of Structural Change on Expenditure Shares for Meats 37

Table 13. Results of LR Tests for Symmetry 43

Table 14. Non-linear ML Estimates of the Parameters of Translogarithmic Demand System, 1967 (I)-1984 (IV), for Beef, Pork, Chicken, and Turkey 44

Table 15. Elasticity Matrix for Four-Meat Translogarithmic Demand System 45

Table 16. Results of Anderson-Mizon Test Statistic for Structural Change 47

Table 17. Results of Likelihood Ratio Test for Structural Change 48

Table 18. Model Comparison by Means of Prediction Error and Information Criteria 55

Table 19. Own Price and Expenditure Elasticity Estimates From the Dynamic Demand System Models 56

Table 20. Own Price and Expenditure Elasticity Estimates of Single Equation Models 56

Abstract

This study focuses on the question of whether variations in total consumption of meat and the mix of different types of meats consumed in Canada over the past twenty-five years have been primarily due to changes in the levels of prices and consumers' income or whether structural changes in red meat demand, due to change in consumers' tastes, have occurred. Since recent economic literature indicates that findings of structural change in demand may be sensitive to functional form or other features of model specification, several model specifications were tested.

In the initial phase of the study, issues of demand specification were analysed using two single-equation functional forms of the various meat demand models fitted to annual time-series data for beef, pork, poultry, and fish from 1960 through 1987. The models are the widely used but theoretically inconsistent double logarithmic model and the single-equation version of the almost ideal demand model.

Various tests of the appropriate measure of the explanatory income variable support the use of expenditure on meat, rather than per capita disposable income, as the income variable. Exogeneity tests of the appropriateness of single equation demand specification are not conclusive but tend to support the use of non-simultaneous quantity- or price-dependent models. The analysis of structural change in the single equation models indicates a structural shift in the Canadian demand for meat during the mid-1970s.

In the second and major phase of the study, two multiple-equation demand systems, the almost ideal demand system and the translogarithmic demand system, were fitted to quarterly data for beef, pork, chicken and turkey from 1967 through 1987. One contribution of this study to applied demand analysis is to confirm the importance of habit persistence in analyzing demand. Inclusion of lagged meat consumption variables materially improved the fit, performance, and consistency with theory-based restrictions of both demand systems. Results from the system analyses of demand also indicated a change in the structure of the demand functions for meat dating from the mid 1970s. Use of a variety of tests of structural

change indicated a shift in the intercept terms, rather than in the slopes of the demand functions, implying a change in consumer preferences or tastes away from beef and toward chicken after accounting for the influence of changes in prices and income. A minor or nonsignificant structural change is evident for pork. The cause of the change in preferences is not clear. Perceptions of healthy diets, changes in the availability of and preferences for fast food items, and changes in the demographic structure of the population as the population has aged are possible explanations.

The study provides updated estimates of the responsiveness of Canadian consumption of the various meats to changes in prices and consumers' expenditure or income. The estimates based on the system analyses are preferred, since they are more strongly grounded in economic theory. As expected, all estimates of price elasticity of demand are less than unity. Both system model approaches indicate that chicken and pork consumption are slightly more responsive to changes in price than is beef consumption. Turkey consumption varies much less than the other meats in response to price changes. As expected, the demand estimates based on quarterly data are slightly more responsive to price changes than the estimates based on annual data.

Overall, habit persistence is important in red meat consumption and consumption changes have occurred in response to changes in prices and incomes. Nonetheless, after accounting for these influences, there is evidence of a structural change in demand away from beef and towards chicken. This has accounted for a decrease of 6% in the expenditure share of beef and an increase of 33% in the budget share of chicken. In relative terms, about 20% of the increase in per capita chicken consumption and about 25% of the decrease in per capita beef consumption seems to have been associated with the changes in consumer preferences. The results from this study suggest potential market strategies for livestock producers are to emphasize production of lean meat, encourage fast food products, and encourage cost competitiveness throughout the industry.

1. Introduction

A. Background

In Canada, as in some other nations, meat consumption patterns have changed over the past twenty-five years. Poultry meat consumption has trended upward, although at a slower rate than in the United States. Pork consumption per capita has shown much year-to-year variability, but generally tended to increase until 1980 and has fallen somewhat since then. Beef consumption increased to a peak level of 51.4 kg per capita in 1976, fell continuously to 39.5 kg in 1980, and has remained relatively stable since then. The aggregate decline in consumption of red meats and changes in the meat consumption mix since 1986 have led to suggestions that there may have been a change in the underlying structure of preferences away from red meats due, perhaps, to perceptions of health and diet or to changes in the demographic structure of the Canadian population. Changes in the relative levels of meat prices and of consumers' incomes are also possible causes of the observed changes in consumption patterns noted above. The issue of whether any of these factors is a dominant influence in the changed pattern of consumption has considerable importance to the appropriate marketing strategy and policy for this sector.

B. Objectives

The general objectives of this study are to derive updated and more comprehensive estimates of the demand relationships for red meats and related foods in Canada and to assess the factors underlying changes in consumption patterns for red meats in recent years. Specific objectives are:

1. To assess the merits and limitations of use of quarterly approximations of consumption data in analyzing the demand for red meats and related foods in Canada;
2. To estimate the parameters of demand for red meats and related foods in terms of price, income, and related impacts using annual and quarterly data for recent years;

3. To examine whether or not there appears to have been a structural change in the demand relationships for red meats and related foods and to assess the apparent nature of factors that underlie changing consumption patterns for red meats in Canada during the mid- to late 1970s and 1980s; and
4. To relate the results of the study to the domestic market prospects facing Western Canadian cattle and hog producers.

C. Outline of Research Design, Methodology and Analyses

In pursuit of the objectives outlined above the analysis:

(a) assesses some specification issues and thus the accuracy of elasticity estimates based on single-equation demand models.

(b) estimates the almost ideal demand system and the translog demand system and compares their performance.

(c) empirically evaluates the properties of consumer demand theory with dynamic and static versions of the specific demand systems.

(d) provides parameter estimates of demand for meats by analyzing budget share behavior, using annual and quarterly Canadian data.

(e) tests whether or not there was a structural change in the demand for meats during the mid- to late 1970s.

(f) extrapolates the results of the preceding analyses to the domestic market facing western livestock producers.

This research report contains the following chapters. Following this introduction, in Chapter 2 some specification issues relating to single-equation demand models are examined. Test results and demand elasticities are computed based on annual data. The results of estimating the two alternative demand systems for the retail demand for meats and tests of structural change are applied in Chapter 3 and 4. Chapter 5 provides the conclusions from the study.

D. The Theoretical Framework of Consumer Behavior and Demand Applied in the Study

In most applications of demand analysis to policy questions, it is necessary to know specific economic parameters that describe consumers' behavior. For example, what are the price and income elasticities of demand for beef, pork, and poultry meats? What is the degree of substitution between beef and pork in consumption? Are some types of meat inferior or normal goods? The answers to these questions are useful for policy-making purposes and are necessary to provide projections and outlook information to guide industry members. In this study economic theory and econometric techniques are applied to analyze the data describing consumers' behavior. Further details of the economic theory of consumer behavior applied in the study are provided in the Ph.D. thesis by Chen (1991) which was supported by this Farming for the Future research grant.

2. Single Equation Models of Market Demand for Meat

A. Introduction

In this chapter features of the specification of single-equation models of the demand for meat are explored using annual Canadian data.

The following three specific questions are explored: (1) are prices predetermined in quantity-dependent models of demand for meats (2) what is the appropriate income variable to include in such models of demand for meats and (3) has there been a structural change in demand for meat in Canada, as judged by testing whether demand elasticities have changed, based on model specifications from 1 and 2?

B. Overview of Previous Studies of Canadian Demand for Meat

A number of studies have estimated parameters of Canadian consumer demand for meat. Tryfos and Tryphonopoulos (1973) estimated demand equations for beef, veal, mutton and lamb, pork and chicken over the years from 1954 to 1970. Hassan and Katz (1975) estimated Canadian domestic consumption of beef, pork, lamb, veal, chicken and turkey from 1954 to 1972 using Zellner's seemingly unrelated regression and full information maximum likelihood estimators. Hassan and Johnson (1976) estimated demand elasticities for all foods, including individual meats. Hassan and Johnson (1979, 1983) also estimated demand functions for beef, pork, veal, chicken and turkey using non-linear single equation models with quarterly data. Curtin **et al.** (1987) estimated the demand for food, including various meats, from 1973 to 1985.

Using single equation models and quarterly data, Young (1987) investigated the issue of structural change in Canadian meat demand and found no evidence of a structural shift in demand for beef. Kerr **et al.** (1989) examined the same issue but found evidence of structural change in demand for beef. The empirical results assessing whether there have been structural changes in U.S. and Australian meat demand are also mixed. A number of studies have concluded that there is evidence of structural change in beef demand during the 1970s (Nyankori and Miller 1982; Chavas 1983; Braschler 1983), while others have found no such

evidence (Moschini and Meilke 1984; Martin and Porter 1985). As Dahlgran (1987) has pointed out, the contradictory results and conclusions from such studies seem, in large measure, to be due to differences in model specification, data, and definitions of structural change.

C. The Specification of the Income Variable in Single-Equation Demand Models

In principle, Marshallian demand functions specify quantity demanded as a function of a vector of relative prices and some measure of consumer income or expenditure, that is, $q_i = q_i(P_1, \ldots P_n, E)$. The theory of individual consumer's behavior suggests that: (a) all prices of consumption goods and services as well as consumer's income enter the demand functions; and (b) the individual consumer faces predetermined or exogenous prices. However, in specifying models of empirical demand, for example, for meat, the estimated equations commonly include only the prices of the product and its close substitutes. These models incorporate the notion of weak separability and multi-stage budgeting to exclude all non-meat prices from their models. As Alston and Chalfant (1987) have pointed out, the separability assumption, in turn, suggests that expenditures on meat, rather than the commonly used levels of per capita disposable income, is the appropriate explanatory variable. The issue of whether or not it is appropriate to assume separability is an empirical question.

Two alternative single-equation models of meat demand are used in this study for estimation and hypothesis testing. These are the double-logarithmic demand function specification and the single-equation version of the almost ideal demand specification of Deaton and Muellbauer (1980). The first formulation, although widely used due to its good data fitting features, has the disadvantage of lacking consistency with standard utility maximization theory, a feature that does not apply to the second functional form used in this study. Models 1a and 1b are the double-logarithmic model versions; they differ mainly in their inclusion of expenditure or income as explanatory variables. They are:

(1a) $lnq_i = \alpha_i + \sum_j \gamma_{ij} lnP_j + e_i lnE + u_i$, and

(1b) $lnq_i = \alpha_i + \sum_j \gamma_{ij} ln\left(\frac{P_j}{CPI}\right) + e_i ln\left(\frac{Y}{CPI}\right) + u_i$

where:

q_i = kilograms per capita of meat i (i.e. beef, pork, poultry meat, fish);

p_j = price of meat j (in \$/kg);[1]

E = per capita expenditure for meat $\left(E = \sum_i p_i q_i\right)$; and

y = per capita disposable income. The consumption data for pork and beef are revised unpublished retail-weight per capita consumption data from Agriculture Canada. The other data are from Agriculture Canada (1988).

The single equation versions of Deaton and Muellbauer's model are also tested with alternative expenditure and income variables. These are:

(2a) $s_i = \alpha + \sum_j \gamma_{ij} \ln\left(\frac{P_j}{CPI}\right) + e_i ln\left(\frac{E}{P^*}\right) + u_i$, and

(2b) $s_i = \alpha_i + \sum_j \gamma_{ij} ln\left(\frac{P_i}{CPI}\right) + e_i ln\left(\frac{Y}{CPI}\right) + u_i$

where:

s_i = the share of meat i (beef, pork, poultry, fish) in total meat expenditure;

CPI = the consumer price index for all items; and

$P^* = \sum_i s_i \ln P_i$ (Stone's geometric index). The other variables are as previously defined.

---

1 The meat price data series is derived from the consumer price indexes series for specific meats (1981=100) by multiplying these by the city average retail prices of specific meats in 1981. The price of beef is a weighted average of prices for loin and round steak, roast, hamburger listed in Statistics Canada (Cat. # 62-010). The weights are the expenditure weights listed in Statistics Canada (Cat. #62-553). The same method is applied to derive the price of pork, which is a weighted average of prices of center cuts, roast, and boneless pork.

In choosing among the alternative demand models, non-nested hypothesis tests of Davidson and MacKinnon (1981) are used to assess the appropriateness of the income or expenditure measures as alternative explanators of meat consumption patterns. The hypotheses are:

H_0: Expenditure on meat explains the demand for meat;

H_1: Disposable income explains the demand for meat.

The non-nested tests for Models a and b are based on a compound regression model formed as:

(3) $\ln q_i = (1-\alpha) Model1a + \alpha(Model1b) + u$

Following the Davidson and McKinnon procedure, Model b is replaced by its forecast values to perform J tests. The test of the null hypothesis H_0, is equivalent to the test that $\alpha = 0$ in Equation 3. The hypothesis H_0 is rejected if the t-statistic for α exceeds its critical value. The test procedure is also reversed, i.e. Model b is tested against a. The results of these tests are reported in Table 1. The computer program SHAZAM (White, 1978) was used.

The results in Table 1 support the use of expenditure on meat, rather than per capita disposable income, as the income variable in all but one instance. The exception applies in the case of the almost ideal specification of the demand for pork. In this equation both the income variables considered here are rejected, suggesting that some other measure may be a more appropriate income measure in this instance. This requires further examination.

The results also provide some support for the hypothesis that weak separability of the meat group consumption from other consumption groups applies. Based on the results of these non-nested specification tests, endogeneity tests and stability tests are applied to Models 1a and 2a.

Table 1

Results of Non-Nested J Tests of Income Variables and Expenditures

Model Type:		t-statistics of $\alpha = 0$	
		H_0: Expenditure on Meat is Appropriate Explanatory Variable	H_1: Per Capita Disposable Income is Appropriate Explanatory Variable
$\ln q_i$	Beef	1.034	15.089*
	Pork	-1.443	5.096*
	Poultry	-1.074	3.367*
S_i	Beef	-0.719	13.655*
	Pork	7.478*	4.841*
	Poultry	1.389	4.290*

[1] Autocorrelation is corrected using the Beach-MacKinnon ML procedure prior to application of the J test.

* Denotes α is statistically significant different from zero at the 5 percent level; significant t-statistics indicate the rejection of the hypothesis. The critical value of t* is 2.080.

D. Exogeneity Tests of Functions Estimating Market Demand for Meat

The other major issue of specification addressed in this chapter is the question of whether or not prices are predetermined in market demand functions. As Thurman (1987) has pointed out, the proper specification of quantity or price as the appropriate dependent variable in market demand estimation has received little attention. Yet, if price is endogenous in the quantity-dependent market demand equations, the resulting estimates will be biased and inconsistent due to the presence of simultaneous equation bias. Consequently, tests of structural change based on such a model may not be valid. To assess whether price, quantity, or both are endogenous for aggregate market demand for meat in Canada, the Wu-Hausman test procedure is applied.

The basic concept of the Wu-Hausman test is that if a single equation quantity-dependent demand model is well specified (i.e. if price is predetermined) the estimated slope coefficient of the price from an OLS estimator should not differ significantly from the corresponding estimates from an instrumental variable estimator of a simultaneous equation model of supply and demand. Such estimates of slope coefficients of the price are expected to be quite different from one another if the single equation demand model omits the significant effects of supply equation.

Specifically, the Wu-Hausman test statistic is:

$$(4) \quad WH = (\beta_{iv} - \beta_0)'[V(\beta_{iv} - \beta_0)]^{-1}(\beta_{iv} - \beta_0) \sim \chi^2(q),$$

where:

β_{iv} = the estimate from the instrumental variable technique;

β_0 = the estimate from the OLS technique;

q = the number of variables for which exogeneity is questioned; and

V = the variance of the variables.

For poultry meat, prices of chicken have, at least for recent years, been somewhat indirectly affected by Canadian poultry marketing boards; prices are based on a cost of production formula. It can be expected that poultry meat prices are predetermined and that the quantities demanded are endogenous, suggesting that a quantity-dependent model of the demand for chicken is reasonable. Since the Canadian red meat market is relatively small compared to the much larger U.S. market and since prices of beef and pork are believed to be determined by market forces in the total North American market, it may be reasonable to assume that retail prices are predetermined and that quantities in the Canadian market are endogenous. Nevertheless, it is possible that for some meats, quantities supplied to the Canadian market may have an effect on market prices in Canada. Thus, whether prices, or quantities, may be treated as predetermined or exogenous, or whether these are interdependent in the Canadian market for meat is a question subject to empirical investigation.

To examine the exogeneity of the price and quantity variables in demand models, both quantity- and price-dependent demand equations must be tested. In this section, the commonly used double-logarithmic functional form is applied to test alternative versions of this model.

The quantity-dependent version of demand is:

(5) $$lnQ_i = a_i + \sum_j b_{ij} lnP_j + e_i lnE + u$$

A price-dependent version of demand is:

(6) $$lnP_i = b_i + \sum_j C_{ij} lnP_j + g_i lnQ_i + f_i lnE + u$$

where:

Q_i = kilograms per capita of meat i (specifically, beef, pork, poultry, and fish);

P_i = price of meat i; and

E = per capita expenditure on the four meat types. Data are as for Models 1 and 2.

The supply equation is taken as a function of output and input prices, based on the concept of profit maximization:

(7) $$lnQ_i = h_i + k_i lnP_i + \sum_j m_{ij} lnZ_i + u$$

where:

$Z_i = (P_{if}, P_{il})$

and:

P_{if} = one-period lagged price index of feed; and

P_{il} = price index of hired farm labor.[2]

---

2 Data on P_{if} and P_{il} for Canada are from Statistics Canada, *Farm Input Price Index*, Cat. 62-004.

The null hypotheses to be tested are the predeterminedness of P_i in equation (5) and the predeterminedness of Q_i in equation (6). The instrumental variable estimator used in the tests is two-stage least squares (2SLS).

The initial estimation of demand equations (5) and (6) show the problem of autocorrelation in the error terms.[3] The WH test statistic is not valid in the presence of autocorrelated error terms. Among the several possibilities that may cause autocorrelated disturbances are factors such as consumption habits, missing relevant variables, or structural shifts. The possibility of structural shifts was examined because of the suspicion of possible structural change in the demand for red meats. To investigate this, demand equations (5) and (6) were respecified. Based on the observed change in consumption patterns in mid-1970s, a dummy variable ($d_i = 0$ for the period of 1960-1975, and $d_i = 1$ for 1976-1987) was added to equations (5) and (6). The variable d_i was allowed to interact with P_i and E in equation (5) and to interact with Q_i and E in equation (6), as well as with the intercept terms. The respecified models were estimated using OLS and 2SLS. The results indicated that the problem of autocorrelation in the error terms had disappeared. Based on the estimates of these models, Wu-Hausman statistics were calculated. These are reported in Table 2.

The tests of exogeneity indicate that none of the null hypotheses that the price of meat i are predetermined in the quantity-dependent model of demand for meat i are rejected for the periods from 1960 to 1975 and from 1976 to 1987. These results support the assumption that consumers face exogenous prices. This, in turn, suggests that quantity can be specified as the dependent variable in models of the demand for meat. In the case of the models in which price is specified as the dependent variable, the empirical results suggest that quantity variables are exogenous, suggesting that price-dependent demand models can also be justified.

---

3 Specifically, autocorrelation patterns of an AR (1) process with estimated coefficients of one-period error term ranging from .60 to .80 in both OLS and 2SLS residuals was found.

Table 2

Exogeneity Test Results of Each Quantity- Price-dependent Demand for Meat Equations

Dependent Variable:	Meat Type (i)	Chi-square Statistics (W-H value) H_0: Price of Meat (i) is Predetermined (1960-75)	Chi-square Statistics (W-H value) H_0: Price of Meat (i) is Predetermined (1976-87)
$\ln q_i$	Beef	2.389	1.322
	Pork	0.276	0.167
	Poultry	0.039	1.736
Dependent Variable:	**Meat Type (i)**	**Chi-square Statistics (W-H value) H_0: Quantity of Meat (i) is Predetermined (1960-75)**	**Chi-square Statistics (W-H value) H_0: Quantity of Meat (i) is Predetermined (1976-87)**
$\ln P_i$	Beef	1.667	2.378
	Pork	0.249	0.146
	Poultry	0.127	1.912

Note: The critical value of Chi-square at the 5 percent level of significance is 3.841 with one restriction. The null hypothesis is rejected when the W-H test statistic exceeds its critical value.

E. Elasticity Estimates and Discussion

The empirical findings from estimation of Models 1a, 1b, and 2a are reported in Tables 3 to 5. The econometric program SHAZAM (White) was used. All the own-price and expenditure elasticities of demand for beef, pork, and chicken in Model 1a have the expected signs, are plausible in magnitude, and are significant at the 5 percent level. All the own-price elasticities of demand from Model 1b have expected signs and are statistically significant at the 5 percent level. This is not the case for the estimates of income elasticity of demand from this model; only for beef is the coefficient both significant and with the expected positive sign. The results suggest that the quantity of beef demanded in Canada

will increase by 4.2 percent if per capita disposable income increases by 10 percent whereas Canadian demand for beef will increase by 9.5 percent if per capita expenditure on meat increases by 10 percent. Overall, the estimated expenditure elasticities are considerably higher than are the income elasticities of demand for meats. Note that the conditional expenditure elasticities from Model 1a will only be equivalent to the unconditional income elasticities from Model 1b if the income elasticity for the entire meat group is unitary or close to this.[4] From the expenditure elasticity and income elasticity of beef demand, the derived income elasticity for the entire meat group is 0.44, which is consistent with the expectation of income inelasticity for necessities. The estimated own-price elasticity of demand for beef is -0.39 (Model 1b) when disposable income is included and -0.76 when expenditure on meat is included. Similarly, the own-price elasticity estimate is -0.57 when disposable income is included but -0.72 when expenditure on meat is used. Therefore, own-price elasticity estimates tend to be higher in Model 1a in which expenditure, rather than income, is included as the explanatory variable.

The estimates reported in Table 3 were obtained after correcting autocorrelation. An alternative and preferable way of correcting the problem of autocorrelation is to correct the cause of this problem. The results reported in Table 4 show that in this instance, the problem of autocorrelation can be avoided by breaking the data set into two sub-sample periods. On examining the results in Table 4, it is seen that all own-price and expenditure elasticities have the expected signs and are statistically significant at the 5 percent level. For beef, the estimated coefficients on the dummy variables for price, expenditure, and the intercept are all significantly different from zero, indicating shifts in the price and expenditure coefficients over time.

---

4 See Theil, Chung, and Seale (1989, pp. 133-37) for the derivation of the exact relation between the expenditure elasticity and income elasticity.

Table 3

Elasticity Estimates from the Double Logarithmic Models[a, b, c]

Explanatory Variables:	Dependent Variables: logarithms of quantity of meat(i)					
	q_{beef}		q_{pork}		$q_{chicken}$	
	Model 1b	Model 1a	Model 1b	Model 1a	Model 1b	Model 1a
P_b	-0.39 (5.510)[a]	-0.76 (6.387)	0.32 (3.975)	-0.01 (0.136)	0.16 (1.581)	-0.11 (0.950)
P_p	0.07 (1.038)	-0.12 (1.303)	-0.47 (6.144)	-0.74 (9.162)	0.10 (1.174)	-0.01 (0.065)
P_c	0.02 (0.474)	-0.06 (0.487)	-0.123 (0.903)	-0.08 (0.881)	-0.57 (3.429)	-0.72 (6.247)
P_f	-0.14 (0.928)	-0.07 (0.571)	0.20 (1.071)	-0.13 (1.143)	0.35 (1.621)	0.13 (1.054)
Y	0.49 (3.189)		-0.004 (0.028)		0.35 (0.679)	
E		0.95 (3.652)		0.89 (4.287)		0.84 (3.464)
Constant	1.36 (1.956)	-0.64 (0.557)	3.44 (4.632)	-0.44 (0.478)	1.56 (1.753)	1.18 (1.113)
R^2-adjusted	0.93	0.92	0.89	0.93	0.96	0.97
D.W.	1.827	1.709	1.776	1.556	1.637	2.049

[a] t-statistics are in parentheses. The critical t-statistic at the 5% level of significance is 2.080.

[b] The subscripts b, p, c, and f refer to beef, pork, chicken, and fish, respectively.

[c] Corrected for autocorrelation.

Table 4

Own-Price and Expenditure Elasticity Estimates of Demand for Meat Based on Model 1a with Time Dummy Variables[a,b]

Explanatory Variables:	Dependent Variables: logarithms of quantity of meat(i)			
	Beef (1960-75)	Beef[c] (1976-87)	Pork (1960-87)	Chicken (1960-87)
$\ln P_b$	-1.09 (-4.260)	-0.53	0.17 (0.998)	-0.30 (-2.099)
$d_1 \ln P_i$	0.56 (2.068)		0.38 (1.593)	0.11 (0.323)
$\ln P_p$	-0.13 (-1.267)	-0.13	-0.89 (-5.988)	0.05 (0.400)
$\ln P_c$	-0.19 (-2.140)	-0.19	-0.01 (-0.109)	-0.85 (-7.448)
$\ln P_f$	-0.04 (-0.297)	-0.04	-0.05 (-0.323)	0.02 (0.083)
$\ln E$	1.40 (5.678)	0.57	0.69 (2.563)	1.13 (3.910)
$d_2 \ln E$	-0.83 (-3.440)		-0.26 (-1.199)	0.13 (0.427)
d_0	4.88 (4.704)		0.59 (0.600)	-1.58 (-1.261)
Constant	-2.64 (-2.734)	2.24	0.55 (0.493)	2.22 (-1.816)
R^2-adjusted	0.96		0.91	0.97
D.W.	2.195		1.403	1.452
F-statistics[d]	22.216		2.075	5.321

[a] t-statistics are in parentheses.

[b] The subscripts b, p, c, and f represent beef, pork, chicken, and fish, respectively.

[c] These are derived by adding the coefficients of $\ln P_b$ and $d_1 \ln P_b$ and of $\ln E$ and $d_2 \ln E$ respectively; dummy variables for cross-price effects were tested, found to be not significant, and deleted.

[d] The null hypothesis is all $d_i = 0$. The critical F value is 2.75 at the 5% level.

The estimates for beef suggest that price elasticity fell from -1.09 over the period of 1960-75 to -0.53 over 1976-87, and expenditure elasticity fell from 1.40 to 0.57 between these two time periods. Over time, Canadian consumption of beef has become less responsive to price and income changes. This is less obvious for pork and chicken. For both these meats, the estimated coefficients on the dummy variables are not significantly different from zero, although the F-statistic testing all $d_i = 0$ is significant at the 1% level for chicken. The feature that some cross-price elasticities are negative implies that different types of meat are complementary goods; for all but one pair these implausible estimates are statistically insignificant.

The expenditure share model yields coefficients of expenditure variables that are statistically significant at the 1 percent level and have negative signs (Table 5). In elasticity terms, the results suggest a 10 percent increase in real expenditure on meats will cause a reduction of 3.8 percent in the expenditure share of beef and a 1.8 percent and 2 percent reduction in the expenditure shares of pork and chicken, respectively, holding all else constant. This indicates that a lower proportion of income is spent on beef, pork, and chicken as real income increases, and that beef, pork and chicken are necessities for Canadian consumers. The estimated expenditure coefficients conform with prior expectations.

Table 5

Single Equation Estimates of Demand for Meat Based on Model 2a[a,b]

Explanatory Variables:	Coefficient Estimates[a,b] Beef	Pork	Chicken
$\ln P_b$	0.26 (3.941)	0.07 (0.499)	-0.02 (0.021)
$\ln P_p$	0.12 (1.347)	0.03 (0.144)	0.16 (1.160)
$\ln P_c$	-0.13 (-1.317)	0.76 (3.820)	0.48 (3.111)
$\ln P_f$	-0.28 (-2.415)	-1.44 (-6.020)	-0.86 (-4.620)
$\ln (E/P^*)$	-0.38 (-13.831)	-0.18 (-3.141)	-0.20 (-4.419)
Constant	5.175 (15.404)	2.659 (3.811)	2.957 (5.462)
R^2-adjusted	0.99	0.98	0.98
D.W.	1.225	1.406	1.391
$\hat{\rho}$	0.356[c]	0.270	0.254

[a] t-statistics are in parentheses.

[b] The subscripts b, p, c, and f represent beef, pork, chicken, and fish, respectively.

[c] As the Durbin-Watson value falls in the inconclusive range, an asymptotic test for detecting autocorrelation is used. The critical ρ value is $\frac{2}{\sqrt{T}} = 0.388$. Thus the hypothesis of non-autocorrelation cannot be rejected.

The price and expenditure elasticities were calculated based on the parameter estimates of Model 2a, which is known as the linear approximation to almost ideal demand system (LA/AIDS). The price elasticity formulas for LA/AIDS are derived in Appendix 1. The computed elasticities are reported in Table 7, in which comparisons were made.

F. Prediction Performance of the Demand Models

In view of the usefulness of demand elasticities in economic analysis, it is necessary to choose among alternative models for best predictive performance. This is measured here for the demand models by the final prediction errors (FPE) criterion. Prediction errors for each model and each meat type are computed based on Akaike's (1969) FPE formula (Judge *et al* 1985, p. 242). These are reported in Table 6. For each meat type, Model 1a (which includes expenditure on meat) produces smaller prediction errors than does Model 1b (which includes disposable income). For beef and chicken, Model 2a with the expenditure variable produces smaller prediction errors than does Model 2b with the disposable income variable. On the basis of the FPE criterion, the results clearly favour the use of Model 1a over Model 1b, and the use of Model 2a over Model 2b for forecasts. Based on these results, the use of expenditure on meat, rather than disposable income, is recommended in demand analysis.

Table 6

Final Prediction Errors for Model 1 and Model 2 Series

Meat Type	Final Prediction Error (FPE)[a] Model 1a	Model 1b	Model 2a	Model 2b
Beef	.00098	.00110	.58E-7	.56E-6
Pork	.00056	.00108	.25E-5	.12E-5
Chicken	.00089	.00126	.78E-7	.11E-6

[a] Prediction errors can not be compared between Model 1 and Model 2 series since the dependent variables are different.

Table 7

Own-price and Income Elasticities of Canadian Demand for Meats Reported in Selected Studies

Source	Time Period	Estimation Method	Functional Form[a]	Elasticities Own-price	Income/ Expenditure
Beef Demand:					
(1) Tryfos and Tryphonopoulus (1973)	Annual 1954-70	SURE	Linear	-0.52	0.84
(2) Hassan and Johnson (1976)	Annual 1957-72	FIML	DL	-0.48	0.40
(3) Young (1987)	Quarterly 1967(2)-83(4)	ML	DL	-0.43	0.91
(4) This study	Annual 1960-87	ML	DL	-0.40	0.42[b]
		ML	DL	-0.76	0.95[c]
		OLS	DL	-0.53	0.57[d]
		SURE	LA/AIDS	-0.64	0.55
Pork Demand:					
(1) Tryfos and Tryphonopoulus (1973)	Annual 1954-70	SURE	Linear	-1.05	-0.004
(2) Hassan and Johnson (1976)	Annual 1957-72	FIML	DL	-0.95	0.26
(3) Young (1987)	Quarterly 1967(2)-83(4)	ML	DL	-0.67	0.37
(4) This study	Annual 1960-87	ML	DL	-0.49	-0.004[b]
		ML	DL	-0.74	0.89[c]
		OLS	DL	-0.89	0.69[d]
		SURE	LA/AIDS	-0.91	0.47
Chicken Demand:					
(1) Tryfos and Tryphonopoulus (1973)	Annual 1954-70	SURE	Linear	-0.87	1.13
(2) Hassan and Johnson (1976)	Annual 1957-72	FIML	DL	-0.56	0.73
(3) Young (1987)	Quarterly 1967(2)-83(4)	ML	DL	-0.28	0.28
(4) This study	Annual 1960-87	ML	DL	-0.72	0.11[b]
		ML	DL	-0.72	0.84[c]
		OLS	DL	-0.85	1.13[d]
		SURE	LA/AIDS	-0.99	1.07

[a] DL denotes double logarithmic form. [b] Income elasticity (Model 1b). [c] Expenditure elasticity (Model 1a). [d] Expenditure elasticity (Model 1a with time dummy variables).

G. Comparison With Other Empirical Results

Table 5 summarizes own-price and income elasticities obtained from selected previous Canadian studies of demand for meats. The results are compared with those from this study.[5] In the case of demand for beef, Model 1b (including per capita disposable income) yields slightly lower own-price elasticity estimates than those found in previous studies.

The income elasticity estimate falls within the range of others' estimates. Model 1a (which includes per capita expenditures on meat) provides consistently higher own-price elasticity estimates and slightly higher income/expenditure elasticity estimates than those found in earlier studies.

The own-price elasticity estimates for pork from this study generally fell within the range of estimates of the other studies reported in Table 7. Again, Model 1a yields consistently higher expenditure elasticities than the income elasticities of other studies. The own-price and income or expenditure elasticities for chicken from this study are similar to those found by Tryfos and Tryphonopoulus (1973) and Hassan and Johnson (1976).

H. Conclusions

Prior to estimation of the single equation demand models, two specification tests were conducted. The results of the non-nested hypotheses tests support the use of expenditure on meat, rather than per capita disposable income as the income variable in the regression models. In applying the Wu-Hausman specification tests, the exogeneity of meat prices in quantity-dependent demand functions was not rejected, although one remains uncertain about the endogeneity of meat quantity in the market from the results.

Different specifications of models of Canadian demand for meats used in previous studies have given somewhat different price and income elasticity estimates although most estimates fall within a fairly narrow range. Our results indicate that the own-price elasticity estimates based on models which include expenditure rather than income as an explanatory

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5 For a comparison of demand elasticities from studies prior to 1975, see Hassan and Katz (1975).

variable, are consistently higher than those including disposable income. An interesting question arising from these findings is which own-price elasticity estimate to use for forecasting and policy purpose? This study recommends the use of price elasticity estimates from the model in which the expenditure is used as the income variable based on the following reasons. The use of expenditure, rather than income, as an explanatory variable is supported by the test of predictive performance reported in Table 6; it is also supported by non-nested tests for model selection reported in Table 1. Finally, Model 1a indicates structural change in Canadian demand for beef and chicken, but not for pork, in the mid-1970s.

3. Consumption Expenditure Allocation Over Meat Groups: An AIDS Analysis with Habit Formation and Structural Change

A. Introduction

In this chapter, meat consumption patterns in Canada are analyzed using a dynamic version of the almost ideal demand system (AIDS). Structural change in the demand for four meats is examined by testing for nonconstancy of the parameters of the nonlinear system. It is concluded that Canadian meat consumption patterns can be explained by a combination of habit persistence as well as changes in prices, consumer expenditures and tastes. The results indicate that incorporating the dynamic element of a habit effect in the AIDS model improves the consistency between demand theory and the observed data. The hypothesis of structural change in demand for meat in Canada during the late 1970s cannot be rejected. The detected structural shift is related to the intercept terms of the expenditure share equations, suggesting changes in taste in the demand for different meats. Consumption expenditures have shifted from beef to chicken but remained stable for pork.

Since the introduction of the almost ideal demand system (AIDS) by Deaton and Muellbauer (1980), many applications of this model have been made to analyze consumer demand for food groups. These have included studies by Blanciforti and Green (1983), Eales and Unnevehr (1988), Fulponi (1989), Moschini and Meilke (1989), and Chalfant et al (1989). Except for Blanciforti and Green (1983), these studies have applied the linear approximation of AIDS using Stone's geometric price index (known as LA/AIDS) to obtain price and income elasticity estimates. This is not the case for this study on Canadian demand for meat; the complete AIDS price index rather than its linear approximation is used.

Most applications of AIDS have also involved static demand systems, in which consumers are assumed to fully and instantaneously adjust their optimal purchase of commodities to current changes in prices and income. It is not uncommon, however, for conditions such as homogeneity and symmetry implied by consumer theory to be rejected empirically

with static LA/AIDS models. One problem of the static AIDS model is that it ignores the features of persistence in habits and the possibility of dynamic behaviour in consumer demand. It has been suggested that inappropriate specification of the dynamics of behaviour may account for the rejection of theoretically based demand conditions (Deaton and Muellbauer, 1980 p.320; Anderson and Blundell, 1983). Attempts to incorporate dynamic elements have sometimes involved testing linear approximations of AIDS in first difference form. An example is given by Eales and Unnevehr (1988) who found that in this form neither homogeneity nor symmetry were rejected, which was not the case for the static form of their model. In this paper the alternative dynamic form of AIDS that incorporates a habit effect in the consumer expenditure function is evaluated empirically to examine whether this specification yields empirical results that are consistent with the economic theory of consumer behaviour.

The estimates and associated tests are based on quarterly Canadian data for four meats (beef, pork, chicken, and turkey) from 1967 quarter I to 1987 quarter IV. The results indicate that the incorporation of habit formation gives an AIDS model that is superior to its static version. A related issue of demand studies is whether or not there has been structural change in the demand for meats in Canada. Health concerns, for instance, are thought by many to have shifted consumer preferences away from red meat. Previous studies by Young (1987) and Atkins et al (1989) tested for structural change in single equation models of the demand for meat. Such models are, strictly speaking, inconsistent with the theory of consumer behaviour. Using nonparametric tests, Alston and Chalfant (1990) found that Canada's time series of annual meat consumption data from 1960 to 1987 could have been generated by a stable system of well-behaved demand equations. Nonetheless, they found the frequency with which the nonparametric tests correctly rejected the hypothesis of stable preferences was low, which reduced their confidence in concluding that structural change had not occurred.

In this chapter, we use parametric tests to examine the issue of demand stability. The issue of structural change in demand for meat groups is explored, based on the preferred model, to determine whether consumers' preferences and consumption habits for meats have changed over the past twenty years. Application of a recently proposed test procedure for detecting structural change in non-linear simultaneous equation systems indicates that the hypothesis of structural change cannot be rejected.

B. Model Specification

The almost ideal demand system of Deaton and Muellbauer is derived, by use of duality concepts, from the flexible consumer expenditure function known as the price-independent generalized logarithmic (PIGLOG) form. The expenditure function is defined as the minimum expenditure necessary to attain a given level of consumer utility at given current prices. The assumption of price exogeneity and weak separability of preferences which implies budgeting in stages is invoked. In the framework of multi-stage budgeting, it is assumed that consumers first allocate their expenditures to broad aggregate commodity groups. Subsequently, consumers' decisions are based on group expenditures and commodity prices within each group. Detailed derivation of the AIDS model is given in Deaton and Muellbauer (1980).

The resulting demand functions in expenditure share form are:

$$S_i = \alpha_i + \sum_j \gamma_{ij} \ln P_j + \beta_i (\ln E - \ln P) \qquad i = 1 \ldots n \qquad (1)$$

Where P is a price index defined by:

$$\ln P = \alpha_0 + \sum_k \alpha_k \ln p_k + \frac{1}{2} \sum_j \sum_k \gamma_{kj} \ln p_k \ln p_j$$

Subscripts $(i, j) = 1, \ldots, n$ refer to the four meat groups. Variable S_i is the expenditure share of the ith meat type; the p_j are prices; E is the total expenditure on all commodities in the system; and α_i, γ_{ij}, and β_i are the demand parameters to be estimated.

Parameter α_i can be interpreted as the basic budget share of meat type i (ignoring changes in relative prices and real expenditure); γ_{ij} measures the change in the ith budget share following a unit change in price p_j with real expenditure held constant; β_i measures the effect on the ith budget share of a change in real expenditure. To be consistent with the fundamental postulates of demand theory, the following conditions must hold in terms of parameter restrictions:

$\Sigma\alpha_i = 1, \sum_i \gamma_{ij} = 0, \Sigma\beta_i = 0$, specifying the adding-up condition; (2a)

$\sum_j \gamma_{ij} = 0$, the property of homogeneity of degree zero of prices and income; and (2b)

$\gamma_{ij} = \gamma_{ji}$, the Slutsky symmetry condition. (2c)

The standard AIDS specification of (1) is non-linear in parameters.

The AIDS model is derived from a framework of consumer cost minimization. From Equation (1) it is seen that the budget share of good i is a function of prices and total expenditure:

$$S_i = s_i(P, E) \tag{3}$$

To incorporate consumption habit variables into the AIDS model, the "dynamic translating" procedure proposed by Pollack (1970) and Pollack and Wales (1981) was adopted. Following this procedure, the original demand system is replaced by a new system which contains translating parameters, and it is assumed that only these parameters (α_i) depend on the habit persistence variables. The process can be applied to classes of demand system models such as the linear expenditure or translogarthmic systems. Applying this procedure to the AIDS model involves replacing Equation (3) by the modified system:

$$S_i = \alpha_i + S_i(P, E - \Sigma p_i \alpha_i) \qquad (4)$$

and specifying the linear dynamic translating parameter as : $\alpha_i = \alpha_i^* + d_i q_{it-1}$.

where d_i is the coefficient that measures the impact of previous consumption on the current expenditure share of meat type i. Then, the habit persistence version of the AIDS model becomes:

$$S_i = \alpha_i^* + d_i q_{it-1} + \sum_j \gamma_{ij} + \beta_i(lnE - lnP) \qquad i, j = 1, \ldots n \qquad (5)$$

where $\ln P = \alpha_0 + \sum_j (\alpha_i^* + d_i q_{it-1}) \ln P_j + \frac{1}{2} \sum_i \sum_j \gamma_{ij} lnP_i lnP_j$

If the original demand equations associated with a utility function of $u(q_i)$ satisfy the first-order conditions of cost minimization, then such conditions are also satisfied for the modified system associated with the utility function of $u(q_i - \alpha_i)$. Given that the original AIDS equation was generated by the consumer's cost minimization problem of:

$$c(u(q), p) = \min_q \{p.q : u(q) = u_0\},$$

the modified AIDS equation, in principle, can be generated by solving the following problem:

$$c(u(q^*), p) = \min_{q^*} \{pq^* : u(q^*) = u_0\},$$

where $q^* = q - \alpha$;

According to the duality principle, the consumer chooses $(q - \alpha)$, given the prices P and budget $(E - \sum p_i \alpha_i)$, in the corresponding utility maximization framework. The question of whether duality between the two optimization problems prevails is dependent on non-violation of regularity conditions. Typical regularity conditions of the cost function being positively monotonic and concave can be checked empirically.

An alternative derivation of the habit persistence version of the AIDS model is to follow a procedure indicated by Blanciforti, Green and King (1986). The dynamic feature in

the adjustment of demand is incorporated by specifying an ad hoc dynamic cost function through the introduction of one-period lagged consumption levels, q_{it-1}, to the PIGLOG consumer expenditure function:[6]

$$\ln C(p,u,q_{it-1}) = \alpha_0 + \sum_i (\alpha_i^* + d_i q_{it-1}) \ln p_i + \frac{1}{2}\sum_i \sum_j \gamma_{ij} \ln p_i \ln p_j + U\beta_0 \prod p_k^{\beta_k} \qquad (6)$$

By Shephard's lemma:

$$\frac{\partial \ln C}{\partial \ln P_i} = S_i = \alpha_i^* + d_i q_{it-1} + \sum_{ij} \gamma_{ij} \ln p_j + \beta_i u \beta_0 \prod p_k^{\beta_k} \qquad i = 1 \ldots n \qquad (7)$$

Substituting $\ln C = \ln E$, for $u(P, E)$, Blanciforti *et al* apply the procedure of Deaton and Muellbauer (1980) to incorporate the habit persistence variable, yielding:

$$S_i = \alpha_i^* + d_i q_{it-1} + \sum_j \gamma_{ij} \ln p_j + \beta_i (\ln E - \ln P) \qquad i = 1 \ldots n \qquad (8)$$

where

$$\ln P = \alpha_0 + \sum_i (\alpha_i^* + d_i q_{it-1}) \ln p_i + \tfrac{1}{2}\sum_i \sum_j \gamma_{ij} \ln p_i \ln p_j \qquad (9)$$

Equation 9 is identical to equation (5) which is derived from the dynamic translating procedure.

The adding-up condition in the modified system changes to:

$$\Sigma\alpha_i = 1, \ \sum_i \gamma_{ij} = \Sigma\beta_i = \Sigma d_i = 0 \qquad (10)$$

As is the case with the original AIDS model, the adding-up restrictions only hold locally. The restriction $\Sigma d_i = 0$ requires that at least one of the d_i is negative. While a positive sign indicates habit persistence, a negative sign implies inventory depletion effects. The conditions of homogeneity and symmetry, expressed in terms of the parameter restrictions, remain as $\sum_j \gamma_{ij} = 0$ and $\gamma_{ij} = \gamma_{ji}$, respectively. The habit persistence extension adds n parameters to the static AIDS model.

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6 Note that the well-defined consumer cost function is c(p,u). The inclusion of the previous consumption level, q_{it-1}, in the cost function makes this non-standard but dynamic.

C. The Data and Estimation Procedures

Quarterly time series data available from Agriculture Canada for the period of 1967(I)-1987(IV), with 84 observations on each meat group, were used to estimate the models and for hypothesis testing. The data are quarterly per capita disappearance (in lbs) and retail prices of beef, pork, chicken, and turkey (in \$/lb).[7] For beef and pork, the revised retail weight per capita consumption series was used.

To estimate the static AIDS system of equation 1 and the dynamic system of equation 5 with data on Canadian meat groups, an error term must be added to each equation in both systems. Since the sum of expenditure shares equals the exact linear combinition of the regressors, the variance-covariance matrix for the complete n-good system is singular and the standard procedure of arbitrarily deleting one of the equations, rendering the remaining $(n-1)$ by $(n-1)$ variance-covariance matrix nonsingular, is applied (Barten, 1969). The estimates are invariant as to which equation is deleted since the maximum likelihood estimator is used. In this study, the expenditure share equation for turkey consumption is deleted to enable estimation. The nonlinear maximum likelihood procedure of SHAZAM (White et al 1988) was used for estimation.

Both static and dynamic AIDS model systems were estimated. Subsequently, restricted versions of both systems, with the parameter restrictions implied by consumer theory, were also estimated. The resulting log likelihood function values are tested to assess whether the exclusion of the habit formation variable may account for the instances of rejection of the theoretical restrictions of homogeneity and symmetry. As the theory of consumer

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7 Retail prices of these meats were derived from the consumer price index series for meats (1981=100) and from the base-year (1981) prices of meats which are available from Statistics Canada (Cat. # 62-010). The retail prices are averages weighted by the different components of each meat type. Expenditures and expenditure shares for each meat were calculated from the price and quantity series as $E = \Sigma p_i q_i$ and $S_i = \frac{p_i q_i}{E}$ respectively.

behaviour proposes that the homogeneity and Slutsky symmetry conditions hold for utility-maximizing consumers, non-rejection of these conditions is used as one criterion of model selection.

Since the classical test of structural change in linear regression models is not applicable to nonlinear systems of equations, the procedure proposed by Andrews and Fair (1988), involving a likelihood-ratio equivalent test of structural stability is applied.[8] In testing for structural change in a non-linear simultaneous equation model situation, the parameter vector Q is of the form $Q = (Q_1, Q_2)$, where the likelihood function for $t_1 = -T_1, \ldots -1$ depends only on Q_1 and the likelihood function for $t_2 = 1, \ldots, T_2$ depends on Q_2. The asymptotically equivalent likelihood ratio-like test statistic is:

$$\lambda_{LR} = (T_1 + T_2)(ln(S_u) - ln(S_r)) \sim \chi^2_k,$$

where:

$T_1 + T_2 = T$ is $\{t = -T_1, \ldots, -1, 1, \ldots, T_2\}$. S_r is the value of the constrained minimum of $S(Q)$, the residual sum of squares; and $S(Q_u)$ is the value of the unconstrained $S(Q)$, which equals the sum of the residual sum of squares, $S(Q_1)$ and $S(Q_2)$ for periods t_1 and t_2, respectively. Thus, in calculating the above test statistics to test the null hypothesis of structural stability given by $Q_1 = Q_2$, it is necessary to compute the restricted estimate of $Q(Q_1 = Q_2)$ using the whole data set. Then the unrestricted estimates of Q_1 and Q_2 are computed using data for the sub-sample periods t_1 and t_2 respectively. The number of restrictions, k, is the total number of parameters in Q that are restricted to be the same for the two sub-sample periods. The application of this test includes the case where the structural change is only partial, i.e. it can test only a subset of the coefficients in the model.

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8 This is a variant of the LR-equivalent test developed by Gallant and Holly (1980) and reported in Judge et al (1985, p. 217).

D. Empirical Results and Discussion

To choose a suitable maintained framework within which the issue of structural change may be examined, the performance of the static and dynamic AIDS specifications is compared. Likelihood ratio test statistics, $LR = -2(L_r - L_u)$, where L_r is the maximum value of the log likelihood function with restrictions imposed and L_u is the unrestricted value are presented in Table 8.

Table 8

Results of Likelihood Ratio Tests for Homogeneity and Symmetry

Model	Unrestricted Log Likelihood Value (L_u)	Homogeneity and Symmetry Restricted Log Likelihood Value (L_r)	LR Test Statistic Value $-2(L_r - L_u)$	Number of Restrictions	Critical Value at 5%
Static AIDS	792.946	774.555	36.782	10	18.307
Dynamic AIDS	795.787	787.234	17.106	10	18.307

The test results indicate that the restrictions of homogeneity and symmetry are rejected for the static AIDS system. However, this is not the case for the dynamic AIDS system. Incorporation of habit formation into the AIDS model appears to improve the consistency between theory and the data that are analyzed in this study.[9] Monotonicity of the cost function was examined by computing the predicted values of the budget shares. For all observations, the predicted budget shares of each meat type are all between 0 and 1, which

9 The results in Table 8 also enable more direct testing of the hypothesis of habit persistence by applying likelihood ratio tests to compare the AIDS model version in which $d_1 = d_2 = d_3 = 0$ with the dynamic AIDS model. For the models in which homogeneity and symmetry are restricted, the computed likelihood ratio value is 25.358, which exceeds the critical value of $\chi^2(.05, 3) = 7.81$. The static model is thus rejected in favour of the dynamic AIDS version at the 5% level of significance. However, for the models in which homogeneity and symmetry are not restricted, preference for the dynamic version is based on a low level of confidence (85%), as the computed likelihood ratio value is 5.682.

implies that monotonicity holds. Negativity was checked from compulations of the eigenvalues of the Slutsky matrix at each sample point using the actual values of budget shares. For all observations these were negative, implying a concave cost function.

Estimates of the structural parameters for both the static and dynamic AIDS versions are reported in Table 9. Fifteen of the 19 coefficients are significantly different from zero for the dynamic AIDS model while 8 of 12 coefficients are significant for the static model. Minimum budget shares, α_i, are between zero and one for each meat type in the dynamic model version but the minimum budget share for chicken with the static AIDS model is negative. The significant coefficients on the habit persistence variables suggest that this feature, as well as price and expenditure effects, has some influence on consumers' budget share allocations for beef, pork, and chicken.

Table 9

Maximum Likelihood Estimates of the Structural Parameters of AIDS for Beef, Pork, and Chicken[a,b]

	Static AIDS		Dynamic AIDS	
Parameters[c]	Estimates	Standard Errors	Estimates	Standard Errors
α_1	.8148*	(.0388)	.7169*	(.0454)
d_1			.0023*	(.0008)
γ_{11}	.0639*	(.0146)	.0898*	(.0154)
γ_{12}	-.0531*	(.0139)	-.0631*	(.0139)
γ_{13}	-.0089	(.0059)	-.0304*	(.0061)
β_1	-.0389*	(.0051)	-.0346*	(.0059)
α_2	.2887*	(.0342)	.2678*	(.0358)
d_2			.0043*	(.0014)
γ_{22}	.0234	(.0165)	.0675*	(.0217)
γ_{23}	-.0092	(.0086)	.0455*	(.0108)
β_2	.0102*	(.0044)	.0016	(.0045)
α_3	-.1302*	(.0130)	.0033	(.0244)
d_3			.0167*	(.0033)
γ_{33}	.0044	(.0119)	.0456*	(.0108)
β_3	.0289*	(.0017)	.0032	(.0049)
α_4	.0301	(.0530)	.0001	(.0456)
d_4			-.0430*	(.0171)
γ_{14}	-.0021	(.02100)	.0037	(.0216)
β_4	-.0002	(.0069)	.0163*	(.0090)
Log likelihood value	774.5546		787.3235	

[a] The parametric restrictions of homogeneity and symmetry were imposed.

[b] * denotes significance at the 1% level is denoted by *.

[c] The subscripts of the parameters represent the meat type, i.e. 1 = beef, 2 = pork, 3 = chicken.

Marshallian demand elasticities are calculated using the structural parameter estimates. Rearranging budget shares $(p_i q_i)/E = S_i$ as $q_i = (E/p_i)S_i$, and applying the definition of Marshallian elasticities gives the total expenditure elasticity for the AIDS system of equation 5 as:

$$\epsilon_i = 1 + \frac{\beta_i}{S_i}$$

Price elasticities are:

$$\epsilon_{ij} = \frac{1}{S_i}\left[\gamma_{ij} - \beta_i\left(\alpha_j + d_j q_{it-1} + \sum_k \gamma_{jk} \ln p_k\right)\right] - \delta_{ij}$$

where

$\delta_{ij} = 1$ for $i = j$ and $\delta_{ij} = 0$ for $i \neq j$.

The calculated demand elasticities are reported in Table 10. Own-price elasticity estimates are -0.77, -0.82, -0.95, and -0.09 for beef, pork, chicken, and turkey, respectively. The estimates for chicken and beef are slightly higher but generally comparable to those reported in other studies (for example, in Hassan and Johnson (1976) and Young (1987)).

Table 10

Uncompensated Price and Expenditure Elasticities[a]

	Price Elasticity				Expenditure Elasticity
	Beef	Pork	Chicken	Turkey	
Beef	-.77 (.202)	.12 (.067)	.21 (.083)	.07 (.104)	.93 (.148)
Pork	.19 (.088)	-.82 (.098)	-.08 (.073)	.02 (.025)	1.01 (.337)
Chicken	.02 (.017)	.08 (.112)	-.95 (.129)	.14 (.089)	1.04 (.196)
Turkey	-.22 (.711)	.16 (.698)	-.16 (.059)	-.09 (.024)	.99 (.210)

[a] Elasticity estimates are calculated at the sample means. Standard errors are in parentheses.

E. Testing for Structural Change

To investigate the issue of parameter constancy, Equation 5, which incorporates habit formation, was taken as the maintained framework and estimated for two subsample periods. For this purpose the time series data set was partitioned at 1976 (II), when beef consumption peaked.[10] Table 11 reports the results of applying the Andrews-Fair likelihood-ratio equivalent test of the hypothesis of structural stability to the nonlinear parametric system of model 5.

The hypothesis of no structural change in the complete set of parameters is rejected. The results suggest that there is a difference in some or all the structural parameters of the model before and after the mid-1970s. The assumptions of common slopes and common

10 Per capita levels of beef consumption increased to a peak in 1976, fell continuously to 1980, and have remained relatively stable since then. A standard criticism of this type of parameter stability test relates to specification of the breakpoint. In the context of the linear version of AIDS, CUSUM tests and sequential Chow tests were applied to the data set using OLS. The LA/AIDS shows no sign of instablity up to 1975(I) and after 1979(I). This accords with the observation of the pattern of changes in the consumption data. Due to computational complexity, this approach was not pursued for the dynamic non-linear estimator.

Table 11

Results of Likelihood Ratio Tests for Structural Change

Hypotheses	# of Restrictions	LR-like Test Statistic	Critical Value ($\chi^2_{.05}$)
No structural change in:			
(1) All parameters	15	49.980	24.996
(2) Price parameters	6	7.970	12.592
(3) Expenditure parameters	3	7.332	7.815
(4) Intercepts	3	16.012	7.815

Notes: The LR-like test statistics are obtained by including intercept dummy variables and slope dummy variables for the cases (2), (3), and (4).

intercepts of the model were tested separately. From Table 4, it is seen that the hypothesis of common intercepts for the share equations is rejected, while the hypothesis of no shift in price and expenditure coefficients cannot be rejected. In the beef expenditure share equation the estimated intercept is 0.540 and the coefficient of the intercept dummy variable is -0.033 and significant, which implies that the average drop of 6 percent in the expenditure share on beef between the two periods can be accounted for by structural change with prices and expenditure held constant. The estimated intercept of 0.09 and the coefficient of the intercept dummy variable of 0.03 in the chicken expenditure share equation reflects the increase of about 30% in expenditure on this meat. For pork, the coefficient of the intercept dummy variable was 0.001 and non-significant.[11] Evidently the estimated intercept terms of the AIDS expenditure share equations from the preferred model exhibited a shift during the mid-1970s.

11 Note that t test statistics for the coefficients of the intercept dummy variables are -3.287, 4.596, and 0.242 from the beef, chicken, and pork equations, respectively.

It is of interest to compare the above estimates of changes in expenditure shares on meats, holding prices and total expenditrue on meat constant, with those that have actually occurred since the mid-1970s. In Table 12, the means of the expenditure shares for beef, pork and chicken before and after the apparent structural break are given. We used t- and F-statistics to test the hypothesis that the mean value of meat expenditure shares is the same for the periods before and after the structural break. This hypothesis is rejected in the case of beef and chicken, but not in the case of pork. The differences between the mean expenditure shares before and after the structural break periods were then calculated. The results indicate a significant and positive effect of structural change on chicken consumption, a negative effect on beef, and neutral effects on pork consumption. The results are consistent with those based on the likelihood ratio-like tests and estimation with intercept dummy variables.

Table 12

Effects of Structural Change on Expenditure Shares for Meats[a,b]

Meat Type	Expenditure Shares		Absolute Change	Percentage Change from Period 1	F-ratio[c]
	1967 (I)-1976 (II)	1976 (III)-1987 (IV)			
Beef	0.523	0.499	-0.024* (-4.150)	-4.6%	2.96
Pork	0.374	0.377	0.003 (0.652)	+0.8%	1.18
Chicken	0.075	0.098	0.023* (9.531)	+30.7%	1.62
Turkey	0.027	0.026	-0.001 (2.493)	-3.7%	1.50

[a] t-statistics in brackets

[b] * denotes significance at the 5% level. The critical value is 1.96 at the 5% level of significance.

[c] The critical value of the F-statistic is 1.40 at the 5% level.

F. Conclusions

In this chapter, we evaluate empirically a dynamic AIDS model of the Canadian demand for major meat groups and compare this to a static AIDS model. The properties of homogeneity and symmetry implied by consumer theory are rejected for the static model. The dynamic model incorporates a habit persistence effect; this model does not reject these properties. The results support the inclusion of a consumption habit effect in analysing demand for meats using quarterly data.

Empirical estimates from the AIDS model incorporating habit persistence indicate that the demand for chicken is more expenditure elastic than for beef and pork. The hypothesis of no structural change in Canadian demand for meats was rejected by likelihood ratio-like tests which indicate that expenditure shares on beef and chicken since mid-1970 are different than in the preceding period. This finding is supported by the measurement of the effects of structural change on meat expenditure shares. Consumption expenditure shares have trended away from beef and toward chicken. It is found that the basic expenditure share spent on beef has dropped by about 6 percent for the post-1976 period while the basic expenditure share for chicken increased by 30 percent in the same time period. Based on this, we conclude that while changes in relative prices and total expenditure explain much of the variation in meat consumption, a portion of the observed changes in meat consumption patterns over the last twenty years is consistent with a structural change in consumer preferences. It may be that these changes are associated with increasing health concerns regarding diets; other possible causes of the structural shift include the changing nature of poultry products and the growth of fast food outlets (See Eales and Unnevehr, 1988). The finding of a structural shift in Canadian meat consumption during the mid-1970s suggests the use by researchers of post-1976 data or the use of dummy variables that allow regression intercepts to change in models for policy analysis and forecasting.

4. Meat Expenditure Share Behavior in Canada: A Dynamic Translog Demand System Analysis

A. Introduction

A review of previous empirical studies on the demand for meat and the related issue of structural change reveals different results and contradictory conclusions on the existence of structural change. Such econometric results are generally sensitive to differences in functional form. For example, estimation and tests based on the AIDS model in the previous chapter provided some evidence that there is a structural shift in demand for meat in Canada. This may or may not be the case for some other demand system. One way to analyze the sensitivity of demand elasticity estimates and structural change tests to specification choices is by making comparisons of empirical results from different demand systems.

The purpose of this chapter is to evaluate an alternative demand system to analyze the sensitivity of results to different functional forms by using the same data set employed in the previous chapter. In particular, the role of meat prices, consumer expenditures, and consumers' habit formation in explaining the changes in meat consumption patterns in Canada is assessed by estimating the translogarithmic model with a habit effect incorporated. Further, this chapter provides evidence of the existence and effects of structural change in the demand for meat in Canada by applying a different testing procedure applied by Anderson and Blundell (1984).

B. The Translogarithmic Demand System and Extension

As one of the most commonly applied demand systems, the Transcendental Logarithmic (Translogarithmic) system of Christensen, Jorgenson and Lau (1975) is derived from consumer utility maximization framework. Their indirect utility function is specified as the following utility approximation function which is quadratic in the logarithmic of the ratios of prices (P_i) to the value of total expenditure (E):

$$lnV = \alpha_0 + \sum_i \alpha_i ln\left(\frac{P_i}{E}\right) + \frac{1}{2}\sum_i \sum_j \beta_{ij} ln\left(\frac{P_i}{E}\right) ln\left(\frac{P_j}{E}\right) \qquad (1)$$

Denote $P_i^* = \left(\frac{P_i}{E}\right)$ and assume symmetry in the utility function, i.e. $\beta_{ij} = \beta_{ji}$. Apply the logarithmic form of Roy's identify of:

$$\frac{P_i q_i}{E} = \frac{\partial \ln V / \partial \ln P_i}{\partial \ln V / \partial \ln E} \tag{2}$$

The demand system in expenditure shares, $s_i = \frac{P_i q_i}{E}$ can be obtained as:

$$S_i = \frac{\alpha_i + \sum_j \beta_{ij} \ln P_j^*}{\sum_j \alpha_j + \sum_i \sum_j \beta_{ij} \ln P_j^*}, \qquad i = 1, 2, 3, 4 \tag{3}$$

where α_i and β_{ij} are parameters. The budget share equations corresponding to the indirect Translogarithmic utility function are used to characterize consumer utility maximization behavior. The application of the model to meat demand further assumes three-stage budgeting so that consumers maximize a utility function that is weakly separable in meat consumption (Deaton and Muellbauer, 1980). With the assumption of meat separability, expenditures on the individual meat within the meat group are determined by maximizing the utility function for the group subject to the total expenditure for the meat group.

The indirect utility function (1) has been extended to allow habit formation by Manser (1976). She specifies parameter α_i, which depends linearly on one-period previous consumption (q_{it-1}):

$$\alpha_i = \alpha_i^* + d_i q_{it-1} \tag{4}$$

By introducing this dynamic specification of habit formation into the indirect utility function and using Roy's identity, the resulting demand equation is:

$$S_i = \frac{\alpha_i^* + d_i q_{it-1} + \sum_j \beta_{ij} \ln P_j^*}{\sum_j \alpha_j^* + \sum_j d_j q_{jt-1} + \sum_i \sum_j \beta_{ij} \ln P_j^*} \tag{5}$$

The static demand system, Model (3), is nested within Model (5), which incorporates the habit effect as the dynamic element. The more general Model (5) reduces to Model (3) if:

$$d_i = 0, \quad for \quad i = 1,2,3,4 \tag{6}$$

In both Models (3) and (5), the adding-up condition is automatically satisfied because $\Sigma P_i q_i = E$. The budget share equations are homogeneous of degree zero in prices and expenditure. As $\Sigma s_i = 1$, only $n-1$ of the share equations are independent. Thus, one equation must be deleted in estimation and the coefficient estimates will be invariant as to which equation is deleted. To estimate the share equations, an error term must be appended to each equation and the normalization $\Sigma \alpha_j^* = -1$ is commonly adopted.

From the equation (5), the following expenditure and price elasticity formulae can be derived. So that the price elasticity derivation will be manageable the assumption that q_{it-1} and p_t are independent is invoked. The expenditure elasticity of demand is derived as:

$$e_i = 1 + \frac{-\Sigma_j \beta_{ij}/s_i + \Sigma_i \Sigma_j \beta_{ij}}{-1 + \Sigma_i \Sigma_j \beta_{ij} \ln P_j^*} \tag{7}$$

The own price elasticity formula is:

$$e_{ii} = -1 + \frac{\beta_{ii}/s_i - \Sigma_j \beta_{ij}}{-1 + \Sigma_i \Sigma_j \beta_{ij} \ln P_j^*} \tag{8}$$

and the cross price elasticity formula is:

$$e_{ij} = \frac{\beta_{ij}/s_i - \Sigma_i \beta_{ij}}{-1 + \Sigma_i \Sigma_j \beta_{ij} \ln P_j^*} \tag{9}$$

It can be seen that the demand elasticities are independent of α_i.

C. Data and Estimation of the Models

Quarterly time series data available from Agriculture Canada for the period of 1967(I) to 1987(IV), with 84 observations on each variable, are used for model estimation and hypothesis testing. The consumption and price set are the quarterly per capita disappearance and retail prices of beef, pork, chicken, and turkey. The retail prices of these meats were converted from CPI (1981=100) series. The base-year (1981) prices of meats are available from Statistics Canada (Cat. #62-010). The retail prices are the weighted averages by the weights of the different components in each meat type. For beef and pork, quantities are retail weight per capita consumption.

Like most other demand systems, the Translogarithmic demand system requires the assumption of price exogeneity and weak separability of preferences. If the assumption of weak separability is correct, the commodities can be divided into groups or subgroups such that preference within a group is independent of other groups. In this study, if meat consumption is properly treated as a group, the consumer chooses the quantities of individual meat types so as to maximize the utility from meat consumption independent of consumption of other goods outside the meat group.

The static and dynamic version of the Translogarithmic demand system model in (3) and (5) were estimated using the non-linear maximum likelihood procedure available in White's (1988) computer program SHAZAM. After deleting the equation for turkey, the model has three equations, i.e. the expenditure share equations of beef ($i = 1$), pork ($i = 2$), and chicken ($i = 3$). As the prices are normalized in the indirect utility function, the homogeneity condition is automatically imposed. To be consistent with underlying consumer theory, the demand models are also expected to satisfy the symmetry condition. The cross-equation parametric restriction of symmetry is tested for both models (3) and (5) to compare the performance of the two specifications. Both models are tested using likelihood ratio (LR) tests. The results of the LR tests are compared to see whether the exclusion of the habit effect in the Translogarithmic system accounts for the rejection of the

Slutsky symmetry condition. For ease of estimation of the indirect Translogarithmic parameters, the normalized price indexes, P_i / E, were scaled to equal 1.00 for 1976(II). The parameter estimates in Table 14 are not invariant to such a rescaling. Christensen and Manser (1977) show, however, that the implied price and expenditure elasticities and test results are invariant to such multiplicative rescaling of data.

D. Empirical Results and Discussion

Prior to the discussion of the structural parameter estimates of demand, test results for the choice of model specification are reported. Table 13 reports the results of likelihood ratio tests for model selection.

Table 13

Results of LR Tests for Symmetry

Model	Symmetry Imposed Log Likelihood (L_r)	Unrestricted Log Likelihood (L_u)	LR Test Statistic $2(L_u - L_r)$	Number of Restrictions	Critical Value at 5% (1%)
Static Translog (3)	801.209	813.148	23.878	6	12.592 (16.812)
Dynamic Translog (5)	858.418	861.750	6.664	6	12.592 (16.812)

The results of LR tests reported in Table 13 indicate that the theoretical restriction of symmetry is rejected in the static Translogarithmic demand system at the one percent level of significance. This restriction is not rejected in the dynamic Translogarithmic demand at the one percent level of significance, nor it is rejected at the five percent level. These results give some support to the habit formation specification in terms of the theoretical consistency of the model. Furthermore, the habit effect specification is supported by the LR test for the restriction of all $d_i = 0$ in model (5). The computed LR test statistic is 97.204, which exceeds the critical value of chi-square of 15.086 at the 1% level of significance. Thus, the hypothesis of no habit effects in Canadian meat demand is rejected.

Table 14

Non-linear ML Estimates of the Parameters of Translogarithmic Demand System, 1967 (I)-1984 (IV), for Beef, Pork, Chicken, and Turkey[a,b]

Parameters[c]	Static Translogarithmic		Dynamic Translogarithmic	
	Estimates	Standard Errors	Estimates	Standard Errors
α_1	-.5535*	(.0062)	.0122	(.120)
α_2	-.3597*	(.0054)	-.4897*	(.1037)
α_3	-.0599*	(.0032)	.0457	(.0508)
α_4	-.0269*	(.0088)	-.5682*	(.0117)
d_1	0		.0019*	(.0007)
d_2	0		-.0012	(.0008)
d_3	0		.0019*	(.0008)
d_4	0		.0073*	(.0025)
β_{11}	.3428*	(.0170)	.1068*	(.0433)
β_{12}	.1313*	(.0142)	-.0212	(.0595)
β_{13}	.0076	(.0064)	.0105	(.0156)
β_{14}	.0093	(.0111)	-.0759	(.0618)
β_{22}	.1572*	(.0193)	.1964*	(.0818)
β_{23}	.0076	(.0060)	-.0216	(.0289)
β_{24}	.0152	(.0118)	.1847*	(.1032)
β_{33}	.0240*	(.0078)	.0506*	(.0134)
β_{34}	.0099	(.0062)	-.0468	(.0318)
β_{44}	-.0109	(.1318)	.2633*	(.1459)

[a] The parametric restrictions of symmetry were imposed.

[b] * denotes significance at 5% level.

[c] The subscripts of parameters represent the meat type, i.e. 1=beef, 2=pork, 3=chicken, and 4=turkey.

The estimates of the structural parameters of the two Translogarithmic models versions are reported in Table 14. The results indicate that 8 out of 14 parameters are significantly different from zero at the 95% level of confidence for the static Translog model and that 10 out of 18 parameters are significant for the dynamic Translog model. The asymptotic t-statistic values of the habit effect coefficients are 2.623, -1.489, 2.436, 2.848 for beef, pork, chicken and turkey, respectively. The positive sign is as expected for the habit persistence effect. The results indicate that habit persistence of beef, chicken and turkey has some influence on consumers' budget share allocations of these meats. The negative sign on the coefficient of the one-period lagged pork consumption variable is the one exception and is statistically insignificant. Overall, the results suggest that habit effects should be considered in analyzing Canadian meat consumption.

The calculated demand elasticities based on the estimated parameters from the model are reported in Table 15. The own-price elasticity estimates are -0.63, -0.91, -0.79, -0.06 for beef, pork, chicken, and turkey demand, respectively. None of these meat types are found to be price elastic, but the demand for turkey is least price elastic.

Table 15

Elasticity Matrix for Four-Meat Translogarithmic Demand System

	Price Elasticity				Expenditure Elasticity
	Beef	Pork	Chicken	Turkey	
Beef	-0.63	-0.10	-0.12	0.25	0.78
	(.138)	(.089)	(.148)	(.221)	(.267)
Pork	-0.04	-0.91	0.34	-0.03	0.76
	(.078)	(.259)	(.211)	(.089)	(.175)
Chicken	0.08	0.07	-0.78	0.15	1.14
	(.106)	(.134)	(.147)	(.189)	(.266)
Turkey	0.11	0.07	0.05	-0.06	1.37
	(.086)	(.127)	(.022)	(.036)	(.410)

Note: The elasticities were calculated at the sample mean. Numbers in parentheses are the standard errors.

E. Testing the Hypotheses of Structural Change

In this section the issue of structural change in Canadian meat consumption is examined. The classical tests for structural change for linear regression models do not apply to systems of equation that are nonlinear in parameters. Anderson and Mizon (1983) have, however, constructed a test statistic to test for structural change in the nonlinear simultaneous equations model. Their test statistic is based on the value of the log likelihood function, L_1, calculated over a restricted period of sample of T_1. The statistic has the following form:

$$2\left[\frac{T}{T_1}L_1 + \frac{T}{2}ln\left(\frac{T}{T_1}\right) - L\right] \sim \chi^2_{n(T-T_1)}$$

where T is the number of observations for the complete sample; L is the value of log likelihood function evaluated over the complete sample; and n is the number of equations in the system. The statistic is distributed as a χ^2 statistic with $n(T-T_1)$ degrees of freedom.

This test was applied to the dynamic Translogarithmic system of Model (5) to test the stability of the model structure. The sample T_1, is restricted by removing the last 42 observations and the value of log likelihood function is evaluated over T_1 period. The choice of these subperiods is based on the observation that per capita expenditure share of beef reached a peak in 1976 (II) and fell thereafter. In an attempt to test the stability of expenditure share behavior within before and after 1976(II) subperiods, the same test was also applied within each of the subperiods. In so doing, the two subsamples were futher split at mid-sample points, and Anderson and Mizon's test statistics for structural change were calculated and reported in Table 16. The null hypothesis of structural stability is rejected for consumer demand for meats for the period from 1967 to 1987 but not within either of the two subperiods.[12]

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12 Altering the sample split points at the time period from 1975(I) to 1979(I) to test the appropriateness of partitioning the sample around 1976(II) did not alter the conclusion from this test.

Table 16

Results of Anderson-Mizon Test Statistic for Structural Change

Hypothesis	Anderson-Mizon Test Statistic	Degrees of Freedom	$\chi^2_{0.05}$
No structural change during:			
Period: 1967 (I) - 1987 (IV)	175.93	126	155.46
Period: 1967 (I) - 1976 (II)	4.359	36	49.765
Period: 1976 (III) - 1987 (IV)	34.560	36	49.765

In spite of the apparent structural break in the later 1970s, the dynamic Translogarithmic demand system model of (5) can still be viable if the model is estimated on the two separate subsamples indicated in Table 4. An alternative way to account for the detected structural break is to include certain time dummy variables that allow the parameters to change in the econometric models. To gain further insight into the nature of this structural change, the hypotheses of common intercepts and common slope coefficients were tested separately. Intercept dummy variables and slope dummy variables were introduced to the model and likelihood ratio tests were employed. The results of these tests are reported in Table 17. The results indicate that the intercepts of the expenditure share equations and the coefficients of habit formation have been subject to structural change. The hypothesis of constant parameters of the normalized prices, however, cannot be rejected at the 5% level of significance. These results suggest that prices and expenditures have tended to have stable effects on consumers' budget share behavior. The estimated differential intercept coefficients for the 1976 (III) - 1987 (IV) period are -0.014, 0.010, and 0.05 for the beef, pork, and chicken demand equations, respectively. The estimated coefficient of the intercept differential of beef equation, -0.014, indicates that the basic budget share for beef during 1976 (III) to 1987 (IV) is 0.014 lower than in the period of 1967 (I) to 1976 (II) given that the basic budget share was 0.47 for the earlier period. It is apparent that there has been a

relatively large increase in chicken expenditures and a moderate increase in pork expenditure shares for the post-1976 (II) period. Based on this evidence, it appears that consumers' preferences have shifted away from beef to chicken.

Table 17

Results of Likelihood Ratio Test for Structural Change

Hypothesis			
No structural change in:	LR Test Statistic	Number of Restrictions	Critical Value ($\chi^2_{.05}$)
(1) Intercept terms	9.043	3	7.815
(2) Intercepts and habit effect coefficients	16.720	6	12.592
(3) Normalized price parameters (P_i/E)	6.664	10	18.307

F. Summary and Conclusion

In empirical demand analyses it is useful and desirable to choose a suitable maintained framework within which restrictions from consumer theory and issue of structural stability may be examined. In this paper, a Translogarithmic model of demand for meats incorporating a habit persistence effect is empirically evaluated and compared to a static version to assess the impact of habit formation in explaining Canadian consumption of four major types of meat. The demand for beef, chicken, and turkey meat appears to be significantly affected by habit persistence as well as the economic variables of price and expenditure. Price elasticity is highest for chicken (-0.98) and lowest for turkey (-0.06). The estimate for beef is -0.63 and for pork, -0.91. Expenditure elasticities exceed one for turkey, beef and chicken and are less than one for pork. With the dynamic element of habit formation, the model does not reject the cross-equation restrictions of consumer demand theory at the 1% level of significance. Based on these results, the dynamic Translogarithmic model with habit formation is chosen as the preferred specification for elasticity estimates and structural stability tests.

Tests for structural change in demand for meat with this model and data set indicate that there is a structural shift in the parameters of consumer preference during the later 1970s. No evidence of structural change was revealed when the samples from 1967 (I) to 1976 (II), and from 1976 (III) to 1987 (IV) were tested. An analysis of the effects of change on the meat consumption expenditure share equation was made. The validity of the assumption of common slope and common intercept was tested by introducing the appropriate time dummy variables to the original dynamic Translogarithmic demand model. It appears that structural change may have caused a decline in the basic expenditure share on beef as indicated by the decline of the intercept of the beef demand equation. The assumption of common slope coefficients on the normalized prices cannot be rejected. This indicates the effects of price and expenditure on meat demand have not changed significantly. The findings indicate that observed meat consumption patterns in Canada cannot be fully explained by changes in relative prices and consumer budgets. Although this study does not identify the cause of structural change in meat demand, the declining expenditure share on beef and the increase in chicken expenditure share tend to support that health perceptions or dietary concerns, in part, explain the change in meat demand (Moschini and Meilke, 1989). The finding of a structural break in Canadian meat consumption during the late 1970s also suggest including appropriate dummy variables that allow this shift in econometric models for meat demand analysis.[13]

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13 For an evaluation and a comparison of results from this and the previous chapters, see next chapter.

5. General Discussion and Conclusions

The main purpose of this study is to contribute to the empirical knowledge of elasticity of demand for meats in Canada and the inquiry about structural change in consumer preferences or tastes in meat consumption over the last two decades. To this end, different demand systems as well as single-equation econometric methods were applied to analyze the demand for meat in Canada. Methodological issues such as appropriate model specification and test procedures were addressed prior to the estimation and hypothesis testing. The hypothesis testing for consumer behavior and structural change are performed based on the preferable maintained frameworks. In this concluding chapter, the major empirical findings of this study are summarized and the implications discussed. Finally, the directions for future research in the area of applied demand analysis are addressed.

A. Summary and Implications

In Chapter 2, estimates of price, income and expenditure elasticities are computed, based on annual data series from 1960 to 1987. Single-equation demand models were used. Efforts were made to explore the issue of whether or not prices are exogenous in quantity-dependent models of demand for meats by applying Wu-Hausman specification tests. In checking the exogeneity of prices in the context market demand for meat, the supply-side factors are also analyzed within the conventional demand-supply market framework. One has to observe the supply-side data such as prices of inputs and analyze their potential effects on the market-supply quantity to be consumed or demanded. Market equilibrium is, as usual, assumed in the model. The empirical results of the exogeneity tests did not reject the exogeneity of meat prices in the quantity-dependent versions of demand functions.

In specifying and estimating the demand for meat, using single equation models, particularly for beef, the hypothesis of non-autocorrelation in the random error term was not rejected when the time dummy variables were introduced to account for structural shift in the regression model. Using sequential Chow tests which split the sample in two subsamples at every possible point it was found that the hypothesis of structural change during

the mid-1970s in demand for beef and chicken cannot be rejected. These results indicate a structural shift and give support to the modeling strategy of introducing dummy variables to allow parameters to vary in the regression models analyzing meat demand in Canada.

Another specification issue analyzed in Chapter 2 is the appropriate use of total income or expenditure on meat in modeling the demand for meat. When the model only includes meat prices and quantities, concepts of weak separability within demand theory suggest expenditure on meat, rather than the commonly used per capita disposable income, is the appropriate explanatory variable. The results of the non-nested hypothesis tests support this theoretical proposition with this set of meat demand data. Based on performance, as measured by prediction accuracy, the use of expenditure variables consistently yield smaller final prediction errors for each type of meat than does the use of income variables. Thus, it is concluded that the demand models using expenditure variables outperform those using income variables.

The demand analyses discussed in Chapter 2 were carried out using linear single-equation regression methods. The principal advantage of the single-equation method is that it allows focus on such model specification problems as price exogeneity and the choice of income or expenditure variables. Use of demand systems methods to check such model specification problems would be more complex. The process of analysis involves many more unchecked maintained hypotheses; the confidence about the end result of the initial inquiry problem normally would be reduced. On the other hand, the major shortcoming of single-equation demand analysis is that the simple model does not allow examination of interdependencies between different types of meat. Thus the cross-equation properties implied by consumer demand theory cannot be examined appropriately. To investigate the parametric restrictions from consumer theory and consumer preference or tastes changes, two demand systems models that are consistent with utility maximization were empirically evaluated.

In Chapter 3, meat consumption patterns in Canada were analyzed, using a dynamic version of the Almost Ideal Demand System (AIDS). The estimates of price and expenditure elasticities as well as the statistics for hypothesis testing were computed using quarterly data series from the first quarter of 1967 to the fourth quarter of 1987. As mentioned earlier, it is important to choose a suitable maintained framework within which restrictions from the theory of consumer behavior and the issue of structural shift may be examined. Thus, efforts were made to evaluate a dynamic version of the AIDS model versus the original static AIDS to determine the role of habit formation in explaining meat consumption in Canada. The analyses of quarterly demand data on beef, pork, chicken, and turkey indicate that the effect of consumption habits on these types of meats cannot be rejected. Furthermore, the empirical evidence shows the AIDS model with habit formation did not reject the properties of homogeneity of symmetry implied by consumer theory; the static AIDS model, however, did reject these theoretical conditions. It appears that incorporating the dynamic element of a habit effect in the AIDS model reduced the inconsistency between the theory and the observed data.

Based on the above results, the dynamic AIDS with habit formation specification is chosen for demand elasticity estimates and for testing structural shifts. None of the meat types is found to be price elastic. The hypothesis of no structural change in Canadian demand for meats during the last two decades was rejected by likelihood ratio-equivalent tests. When the data on meat demand were partitioned into two sub-samples at the break point of 1976, it was found that expenditure shares on beef and chicken were significantly different before and after 1976. The effect of the structural shift was such that expenditure shares trended away from beef to chicken. This is consistent with the idea that increasing dietary health concerns from the mid-1970s had an important effect on the changes in meat consumption patterns.

The AIDS model and its habit formation extension evaluated in this study are based on minimization of consumption expenditure subject to a given utility level. Flexible functional forms were used to approximate the expenditure or cost functions. As a dual problem to expenditure or cost minimization, demand system equations can also be derived from the constrained utility maximization framework. The Translog demand system model is another example of flexible demand functions that assume consumer utility-maximizing behavior over the observed time period. In fact, there are strong similarities between the AIDS and Translog indirect utility functions.

In order to assess the relative explanatory and predictive power of the AIDS and Translog demand system, the Translog model was also estimated both with and without the habit formation extension (Chapter 4). The demand for beef, chicken and turkey meat was found to be significantly affected by habit persistence as well as by the traditional economic variables of prices and expenditure. The results of likelihood ratio tests show that the Translog model with habit formation is better in terms of consistency with implications of the theory of demand, namely the symmetry restriction, than the model without habit formation. The dynamic Translog model with habit formation is used to derive demand elasticity estimates and is tested for structural stability. While no individual meat was found to be price elastic, the demand for turkey was least price elastic.

To test for structural change, we used Anderson and Mizon's (1983) procedure, which is different from the testing procedure used for the AIDS model. The results of the Anderson-Mizon test indicate that there was a structural shift in the parameters of consumer preference during the late 1970s. An analysis of the effects of the structural shift on meat expenditure share equations reveals that the structural change reflected a decline in the basic budget on beef and an increase in the budget share of chicken. This finding of a detected structural shift was the basis of the suggestion that an intercept dummy variable be included as a viable regression model for Canadian meat demand analysis. The alternative modeling strategy is to use the data after 1976 and onward for forecasting purposes.

B. A Comparison of Results of the Systems and Single-equation Models

The Translog Demand System and the Almost Ideal Demand System are two alternative demand systems. Given that the AIDS and Translog models have identical endogenous variables, namely the expenditure or budget shares, it is possible to compare the models in terms of their predictive performance and information criteria. Within this chapter, the following alternative model selection criteria are used, namely:

1) Akaike final prediction error (FPE):

$$(1) FPE = \frac{T+K}{T-K}\hat{\sigma}_k^2$$

and 2) the Akaike information criterion (AIC):[14]

$$AIC = \frac{2}{(nT)}(\ln L_0 - K)$$

where $\ln L_0$ is the value of the log likelihood-function with k parameters and nT observations under. The computed results are reported in Table 18. The AIC criterion is similar to the adjusted R-square. The information provided by the maximum value of the log likelihood function is discounted by the additional parameters to account for the sample size in the regression model.

Table 18 shows that the two demand systems do not differ very much according to the AIC information criterion. In terms of predictive accuracy, the prediction errors of both models are quite small, indicating both models fit the data well. Overall, the Translog system slightly outperforms the AIDS with this data set. It is useful to note that the sample size (84) in the regression model is large relative to the parameters (18) in the Translog demand system model and (15) in the AIDS model. It could be of interest to compare the two models when the sample size is considerably smaller, e.g. when using annual data.

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14 AIC in this form is cited in Hansen and Sienknecht (1989, p.46).

Table 18

Model Comparison by Means of Prediction Error and Information Criteria

Model	k	AIC	Meat Type	FPE
AIDS:	15	6.130	Beef	0.00051
			Pork	0.00043
			Chicken	0.00004
			Beef	0.00047
Translog	18	6.435	Pork	0.00023
			chicken	0.00003

Note: the above results are computed based on the dynamic versions of the two demand systems.

Table 19 summarizes the price and income elasticity estimates derived from the two alternative demand systems. In the case of the demand for chicken, the expenditure and own-price elasticity estimates from the AIDS and the Translog models are almost identical. The own-price elasticity estimates derived from the two models for both beef and pork fall within a fairly narrow range. The two demand systems give slightly different expenditure elasticity estimates, although the magnitudes are not far apart.

Based on these results, it appears that the two alternative flexible demand systems give similar results with respect to own-price elasticities, but there are some minor differences with respect to expenditure elasticities of demand for beef and pork. It should be noted that all elasticity estimates were calculated at the sample means.

It is of interest to compare the demand elasticity estimates from the system models and those from the single equation models. Table 20 summarizes the demand elasticity estimates from the single equation models.

Table 19
Own Price and Expenditure Elasticity Estimates From the Two Dynamic Demand System Models

Model Type	Meat Type	Own-price Elasticities	Expenditure Elasticities
	Beef	-0.77	0.93
AIDS:	Pork	-0.82	1.01
	Chicken	-0.95	1.04
	Turkey	-0.09	0.99
	Beef	-0.63	0.78
Translog:	Pork	-0.91	0.76
	Chicken	-0.78	1.14
	Turkey	-0.06	1.37

Table 20

Own Price and Expenditure Elasticity Estimates of Single Equation Models

Model	Meat Type	Own-price Elasticities	Expenditure Elasticities
Model 1a	Beef	-0.76	0.95
	Pork	-0.74	0.89
	Chicken	-0.72	0.84
Model 1a (with time dummies)	Beef	-0.53	0.57
	Pork	-0.89	0.69
	Chicken	-0.85	1.13

It can be seen that the expenditure elasticity estimates from the single equation model are slightly lower than those from the systems models for the beef and pork demand. This is also the case when comparing the own-price elasticity estimates for beef and chicken demand.

To compare the demand elasticity estimates from the system models and those from single equation models the following must be taken into account. First, quarterly data are used in estimating the systems models while annual data are used in estimating the single equation models. Second, the consumption of beef, pork, and chicken are grouped with turkey in the demand systems analyses whereas the consumption of beef, pork, and poultry meat are grouped with fish in the single equation demand analysis. Comparison of the results suggests that the quarterly demand for meat is more volatile with respect to changes in prices and expenditures than is annual demand. The resulting demand elasticity estimates are generally comparable to those from other demand studies summarized in Young (1987). Use of the quarterly data set enlarges the data set for analysis, enables an extension of the analysis, and allows a wider range of statistical tests to be applied.

Similar conclusions were evident from both models on the issue of structural change in demand for meats in Canada. Tests for structural change with both the AIDS and the Translog demand system indicated a structural shift in household preference parameters during the mid- to the late-1970s. Based on further analyses of the effects of the detected structural shift it was concluded that a shift in the intercept terms of the meat demand equations accounted for the shift in budget shares. We interpret the shift in the intercept terms of the demand systems as an indication of change in tastes or preferences. The test results from the system analyses also indicate the effects of price and expenditure on meat demand have not changed significantly over time. Moschini and Meilke (1989) arrived at a similar conclusion from analyzing U.S. meat demand data. The effects of the structural shift appear to have caused the shift in basic budget shares away from beef to chicken.

The analysis of structural change based on the AIDS models with habit formation indicates that a 6 percent decline in expenditure share on beef and a 33 percent increase in expenditure share on chicken seem to have been due to structural shift at constant prices and expenditures. In order to measure the relative importance of the structural shift effect as opposed to price and income effects in determining the variation in per capita meat consumption, a breakdown of the coefficients of determination, i.e., the R-square statistic was used. Such procedures are only valid when the independent variables, including time dummy variables proxying structural change, are uncorrelated. In the case of structural change analysis, it is reasonable to expect this variable, representing a structural break, is uncorrelated to other independent variables such as prices and consumer expenditures. Thus, the use of the R^2 statistic in this context seems justified.[15]

As the measurement of R^2 is meaningful in the case of a linear relationship estimated by least squares, the breakdown of R^2 was applied to the LA/AIDS model. This model was first estimated without the time dummy variables to separate the intercept terms; the resulting R^2 was 0.72. The R^2 was 0.92 when the model was estimated with the time dummy variables to separate intercept terms. The conclusion derived from this is that about 25% of the change in the system demand for meat can be attributed to the structural shift in consumer preferences (changes in eating habits). A further application of the above procedure to the demand for individual meats (Model 1a) indicates that an average of 20% of the changes in per capita chicken consumption and an average of 25% of changes in per capita beef consumption were due to the structural shift. The remaining proportion of variations in per capita meat demand were determined by changes in prices and consumer expenditures. The implication of this finding for livestock producers is briefly discussed in a following section.

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15 Kennedy (1985, pp.60-61) notes that such tests must be interpreted with caution.

C. Future Research on Applied Demand Analyses

Advances in applied demand analysis have narrowed the gap between the economic theory of consumer behavior and the application of econometrics to observed data in generating estimates of demand parameters. Among these developments, the Transcendental Logarithmic (Translog) Demand System of Christensen, Jorgenson, and Lau (1975), and the Almost Ideal Demand System (AIDS) of Deaton and Muellbauer (1980) are two of the most frequently cited demand systems. There are several similar properties that are common to both demand systems. For example, both models give a local approximation to any demand system; both have been extensively estimated and been used to test the homogeneity and symmetry restrictions of demand theory; both analyzing the behavior of budget shares and have the functional forms of polynomials in log prices. There are many criteria by which these demand systems may be compared. The basic criteria used in this study are the consistency with economic theory, goodness of fit, and forecast accuracy.

Another way to compare the model adequacy and relative explanatory power of the two models of demand system is to develop a more general model that has both models nested within it. Lewbel (1989) has constructed a joint system model nesting the AIDS and Translog demand system. In this paper, he adopted the utility functions U_1 and U_2 for the AIDS and the Translog, respectively. The "joint" system is developed from maximization of $U_3 = \lambda U_1 + (1-\lambda)U_2$ for a constant λ between zero and one nests U_1 and U_2. Using Roy's identity method, the joint demand system in expenditure share forms was derived and estimated by Lewbel using U.S. aggregate consumption data. Comparing the AIDS and the Translog model, he found that both models are equal in terms of explanatory power, although his joint model is slightly superior statistically. It is concluded from Lewbel's (1989) study that "the controversy over the relative merits of AIDS and Translog systems appears to be unnecessary, since both yield very similar elasticity estimates". This supports the conclusion on the performance of the two dynamic demand systems derived from this study. Lewbel's joint demand system nesting AIDS and Translog models may serve as an

alternative specification to either model when there is doubt over which of the demand systems to use. It may be of interest to see how dynamic elements can be introduced to Lewbel's model.

In general, the demand system models with dynamic elements outperform their static counterparts in terms of consistency with economic theory, goodness of fit, and model specification adequacy. In addition to the dynamic specification evaluated in this study, other dynamic specification such as the first-difference demand system model of Anderson and Blundell (1983, 1984), and the partial-adjustment type model of Ray (1984) are the other alternative functional forms.

The impacts of socio-demographic variables on meat consumption have been analyzed mainly from cross-sectional data (Ray 1980; Heien and Pompelli 1988). The empirical finding of Heien and Pompelli suggested that demographic effects, such as household size, region, and ethnic origin, played a significant role in explaining the demand for beef products. They found some other demographic variables, such as employment status, shopper, and occupation, were generally not significant. The incorporation of socio-demographic variables in time-series demand analysis is one of the major challenges for both theoretical and applied research.

The development of flexible functions of demand systems such as the Translog and AIDS models has made it possible to represent any arbitrary consumer demand function. The use of these demand systems sometimes may violate theoretical restrictions such as symmetry or homogeneity. In this study, it is demonstrated that introducing dynamic elements improves the accord between theory and observed data. Two recent papers by Chalfant and White (1988) and Chalfant, Gray, and White (1989) provide useful alternatives by which the consistency between the demand theory and data may be enhanced. Chalfant, Gray and White have argued that the violation of theoretical restrictions of homogeneity and symmetry by the estimated demand systems may be caused by failure to impose substitution elasticities or curvature restrictions. The difficulty facing the demand analyst is that

the restrictions on the sign of elasticity of substitution and negativity involve inequality restrictions. To determine whether an estimated demand system is consistent with prior beliefs from the theory of consumer behavior, they maintained it is important to be able to impose the inequality restrictions. These inequality restrictions can be handled by a Bayesian procedure. Using the linear approximate AIDS model with annual Canadian data on demand for beef, pork, chicken, and fish, Chalfant, Gray, and White found substantial support for the concavity of the consumer's expenditure function underlying the linear approximate almost ideal demand system. They concluded that the probability that the four meats considered are all substitutes is very low. These findings lend support to the results obtained in this study and reported in Chapters 3 and 4, where the non-Bayesian or 'frequency' approach was used.

It can be seen that the Bayesian procedure proposed by Chalfant and White to impose inequality restrictions of demand theory may serve as an alternative way of evaluating competing functional forms for demand systems. So far, in discussing the ways to improve consistency between the theory and data, it is implicitly assumed that the theoretical model is "correct" and the parametric approaches are explored and applied. Varian (1983) and Chalfant and Alston (1988) have shown that non-parametric demand analysis approach may be used to explain commodity consumption patterns and to test the stability of consumer preferences. The advantage of non-parametric demand analysis is that it gives a test for stable preferences for a commodity group that does not require a particular functional form, such as the AIDS or Translog. Underlying the methods of non-parametric demand analysis is the theory of revealed preference, which argues that economists do not observe preferences but observe consumption behavior based on the choices made by consumers. How can economists tell whether observed behavior is generated from the maximization of a preference or utility function? Non-parametric demand analysis method provides an important development to answer this question.

The discussion above mentions a few areas in which additional research is needed. There is another major facet of consumer demand that we know very little about. As Myers (1986) has pointed out, economists have little empirical knowledge of the way supplier behavior interacts with consumer behavior.

D. Implications of the Results of the Study for the Western Livestock Industry

A few analysts have expressed scepticism as to whether a structural change in the demand for meat has occurred, pointing out that conclusions of structural change may be specific to a particular functional form of demand (Alston and Chalfant, 1990). However, the weight of evidence, both from the variety of results reported here, as well as from a study by Reynolds and Goddard (1991), supports the conclusion that a change in the structure of preferences of Canadian consumers for meats occurred in the mid-1970s; this appears to have been completed by the mid-1980s. The structural change has had an impact quite separate from changes in the levels of prices and consumers' incomes. It has involved a shift in preferences towards consumption of chicken and away from consumption of beef. The impact on pork appears to have been relatively minor or insignificant. There are several possible contributors to the evident change in preferences for beef and chicken. Perceptions of healthy diets, changes in lifestyle coupled with availability of fast food products and outlets, and demographic changes associated with an aging population are potential causes. Potential strategies for the red meats sector are to emphasize production of lean meat, encourage development of fast food cuts and products, and to encourage cost reductions and price competitiveness throughout the industry.

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7. Appendix 1

ELASTICITY FORMULAS IN AIDS MODELS

The original static AIDS model is specified as

(1)

$$S_i = \alpha_i + \sum_j \gamma_{ij} \ln P_j + \beta_i (\ln E - \ln P),$$

where $S_i = \frac{p_i q_i}{E}$, and $\ln P$ is the price index.

The uncompensated price elasticity (e_{ij}) and expenditure elasticity (e_i) defined as

$$e_{ij} = \frac{d \ln q_i}{d \ln p_j} = \frac{dq_i}{dp_j} \frac{p_i}{q_j},$$

and $$e_i = \frac{d \ln q_i}{d \ln E}.$$

Form $S_i = \frac{p_i q_i}{E}$, it gives $\ln q_i = \ln E - \ln p_i + \ln S_i$.

The expenditure elasticity formula is:

$$\frac{d \ln q_i}{d \ln E} = 1 + \left(\frac{1}{S_i} \right) \frac{dS_i}{d \ln E} = 1 + \frac{\beta_i}{S_i}$$

The price elasticity formula, in general, can be expressed as:

$$e_{ij} = \frac{d \ln q_i}{d \ln p_j} = -\delta_{ij} + \left(\frac{1}{S_i} \right) \frac{\partial S_i}{\partial \ln p_j} = -\delta_{ij} + \frac{1}{S_i} \left(\gamma_{ij} - \beta_i \frac{\partial \ln P}{\partial \ln p_j} \right)$$

Thus, it depends on the partial differentiation of the price index (ln P).

For the case of LA/AIDS:

$$\frac{\partial \ln P}{\partial \ln p_j} = \frac{\partial (\Sigma S_i \ln p_i)}{\partial \ln p_j} = S_j + \Sigma \left(\frac{\partial S_i}{\partial \ln p_j} \right) \ln p_i = S_j + \sum_i \gamma_{ij} \ln p_i$$

Therefore, the price elasticity for LA/AIDS is:

$$e_{ij} = -\delta_{ij} + \frac{1}{S_{ij}} \left\{ \gamma_{ij} - \beta_i \left(S_j + \sum_i \gamma_{ij} \ln p_i \right) \right\}$$

where $\delta_{ij} = 1$, if $i = j$;

$\delta_{ij} = 0$,, if i does not equal to j.

For the case of habit version of AIDS, where the price index ($\ln P$) is:

$$\ln P = \alpha_0 + \sum_j (\alpha_j + d_j q_{it-1}) \ln p_j + \frac{1}{2} \Sigma\Sigma \gamma_{ij} \ln p_i \ln p_j,$$

and $$\frac{\partial \ln P}{\partial \ln p_j} = \alpha_i + d_i q_{it-1} + \sum_j \gamma_{ij} \ln p_j;$$

therefore, the price elasticity formula for habit version of AIDS is:

$$e_{ij} = -\delta_{ij} + \frac{1}{S_i}\left\{\gamma_{ij} - \beta_i\left(\alpha_i + d_i q_{it-1} + \sum_j \gamma_{ij} \ln p_j\right)\right\}.$$