

TOPIC 3: PRODUCT QUALITY ADJUSTMENT TO PRICES

Chair: Jörgen Dalén (Sweden)

Turvey presented his paper *"Item & outlet replacements and quality adjustment"*. A suggestion to avoid outlet bias by making explicit comparisons between outlets when substituted caused some discussion. A Finnish study, which was referred to, had on average differences in price level could be explained by different "outlet quality".

Schultz presented the draft version of his paper *"Treatment of changes in product quality in consumer price Indices"*, which discusses the frequently used method of "splicing" (link-to-show-no-change). He compared splicing to the Rothwell formula and found similarities. He reported that the index for clothing had been downward biased in Canada. There was another discussion on the possible size of outlet bias.

Based on his paper *"The type and extent of quality changes in the Canadian CPI"*, Lowe described the impact on the index of quality change adjustments.

Norberg (*"Quality adjustment in the Swedish price index for clothing"*) described the hedonic method used in Sweden but concentrated his oral report on the "Sales-price-effect": the last month of one (yearly) index link is more influenced by sales prices than is (overlapping) month (based on a new sample) of the subsequent link. The bias is adjusted for in the index calculation.

Haworth reported on recent work in Britain on the use of hedonic techniques for quality adjusting TV prices (*"Quality adjustment of prices of audio-visual good in the U.K. RPI"*). The following discussion focused on the use of weighted observations when the model is estimated. One argument for unweighted observations (or quantity weights) was that the model should be equally true for all varieties. Another argument, which pointed in the same direction, was that if very few observations account for a large proportion of the total weight there will be too few degrees of freedom in the parameter estimates. The argument for value weights was to achieve representativeness to the population (total value of transaction).

The discussion on hedonic regression, as well as other techniques, continued following an example based on Australian experience for cars, presented by Woolford.

Sellwood presented his paper *"The Harmonisation of Quality Adjustment Practices in the European Union"*, and discussed different approaches to detect deficient treatment of quality changes in the member countries' CPIs.