

THE COMPLEX WORLD OF CONSUMER DECISION: Will increasing alcohol taxes increase book sales?

AACG Affiliate Lester Taylor publishes new book

Which Product Categories Do Consumers Trade-off for Each Other?: Professor Lester Taylor, an AACG affiliate, has published a new book that investigates the trade-offs that consumers make between 14 broad categories of consumption, such as housing, food, transportation, entertainment and education, among others. This research uses more than a decade of income and expenditure data collected in consumer expenditure surveys (conducted quarterly by the U.S. Bureau of Labor Statistics) to measure economy-wide interactions between these major categories of consumption. The analysis allows one to see how the expansion of expenditure in any single category of consumption impinges upon, and in return is impacted by, consumption in other categories. Such information can provide useful inputs for those tasked with projecting long-term growth in different sectors of the economy. With regard to health care, for example, Professor Taylor's research can provide insight as to sectors in which households may be forced to curtail consumption if expenditures for health care continue to increase faster than increases in income.

Among other things, Professor Taylor's analyses can be used to identify clusters of consumption categories whose expenditures have strong interactions with one another. Alcoholic beverages, personal care, reading materials, and tobacco offer an example. Should expenditures for one of the categories in such a cluster change (because, say, of an increase in price), expenditures for the other categories in the cluster are likely to be impacted more significantly (positively or negatively) than expenditures for more loosely connected categories (such as transportation, housing or insurance). Professor Taylor's analyses can quantify these relationships in a form that allows one to see how households' expenditure decisions ripple through the economy from one consumption category to another.

Which Consumption Categories Will Benefit from Growing Income?: Further, the book provides evidence of how changing income levels impact each of the 14 consumption categories. Such analysis may be particularly useful when considering how consumer behavior will evolve as the economy continues to recover from the deep recession caused by the 2007-08 financial crisis.

Relevance for Multiproduct Firms and "Big-Box" Retailers: A key feature of Professor Taylor's analysis is that it is applicable in any circumstance in which expenditure data are available that can be summed to a meaningful budget constraint. Sales of multiproduct firms come to mind, as do revenues of "big box" retailers and supermarkets. Application of Professor Taylor's analyses will enable vendors to focus on sales relationships amongst different goods with a view to finding which goods have positive inter-relationships and which have negative inter-relationships.

You can order *The Internal Structure of U.S. Consumer Expenditures* by Lester D. Taylor at <http://www.springer.com/economics/book/978-3-319-02224-6>. If you would like to contact Professor Taylor please email AACG at Info@aacg.com.