

Taking Account...

Hedonic and Matched-Model Index Issue: Weights

Hedonic and matched-model methods both aim to construct price indexes that account for quality change and properly aggregate over goods. Hedonic price indexes typically show faster rates of quality change; this is usually attributed to the hedonic method's ability to better measure quality change.

However, BEA economists Ana Aizcorbe and Yvon Pho found, in a recent study, that the weightings used by each measure may also be a significant factor.

To explore this issue, Aizcorbe and Pho examined prices for about 60 classes of computer and consumer electronic goods using data captured by scanners and provided by the consulting firm NPD Techworld. The authors calculated price indexes that use different weights, including an unweighted geometric index and a Tornquist index.

The specific comparison of prices derived by an unweighted geometric index and a weighted Tornquist index showed that geometric index prices demonstrate significantly faster rates of quality increase (and faster constant-quality price declines) than the Tornquist index prices, suggesting that the weightings of an index are significant.

Since dummy variable hedonic index measures are typi-

cally unweighted, the study underscores the potential importance of weights in explaining the differential rates of price declines for hedonic and matched-model methods.

Part of the reason for this seems to be that, within each class of goods, products with relatively low market shares tend to show faster price declines than products with higher market shares, giving these price declines a larger role in an unweighted index than in a weighted index.

Aizcorbe and Pho's working paper is available on BEA's Web site at <www.bea.gov/bea/papers/hedonicprice.pdf>.

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