University of Minnesota

Department of APPLIED ECONOMICS

Agricultural and Applied Economics Seminar

Demand Spillovers of Food Recalls in Differentiated Product Markets

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230 Ruttan Hall
(note room change)

Each year in the US, one in six individuals gets sick and some 3,000 lives are lost due to foodborne illnesses. Food recalls happen on a daily basis, negatively affecting the population and causing large monetary losses to producers. The rationale for public and private efforts to solve food safety problems and their efficacy depend on a full understanding of the economic consequences of food recalls. Our study focuses on demand interrelationships between closely competing brands in a differentiated food product category. In particular, we examine the spillover effects of a recalled brand on demand for other brands in order to shed light on producer incentives to jointly set and enforce food safety standards beyond those required by government regulations. Using household-level food purchase data, and a two-stage demand estimation approach, we find that the recall of a branded food product has positive spillover effects on demand for closely competing brands. This result implies that competing producers may not have strong economic incentives to cooperate in advancing food safety standards.