

# The effects of market structure on prices of clothing and household furnishings

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## Abstract

In this paper prices of clothing and household furnishings are explained using commuting variables and market concentration of department stores. The concentration variable has a strong effect on prices of both product types. The commuting variables only affect furnishings prices, a result that is in keeping with expectations. Published by Elsevier Science B.V.

*Keywords:* Market structure; Commuting variable; Market concentration of department stores

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## 1. Introduction

A growing literature exists linking structure to prices, previous studies dealing heavily with banking practices and grocery retailing but also with a collection of other industries.<sup>1</sup> In this paper, retail prices for household furnishings and clothing are explained using a measure of department store concentration and commuting variables. The commuting variables were first used in Claycombe and Mahan (1993) and price and cost data are similar to those used in Lamm (1981).

The study of both furnishings and clothing prices presents a unique opportunity to test the effects of commuting behavior on structure and retail prices. As shown

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<sup>1</sup> For early studies see Greer (1992, pp. 310–312) or Weiss (1989).

in Claycombe and Mahan (1993) and Claycombe (1995), retail markets for food are most competitive when commuters travel long distances. In these circumstances, commuters pass many stores, enlarging the narrow geographic market in which they shop. Commuting distances only matter, however, if commuters shop along their commutes and this need not be true for all products. Clothing would seem to be a product that is not often bought along a commute since much clothing is bought by consumers who do not commute (e.g. students) or it is bought with a child or spouse along, after the commute is over. Shopping for household furnishings does not, however, require the presence of a child and furnishings are not often bought by students. For this product category, commuting variables should perform as they did in the grocery studies.

This study is also the first to examine the effect of concentration of department stores on prices. Results in this paper for both furnishings and clothing price regressions show department store concentration to have a strong effect on price. Results in these regressions also confirm the expectations for the commuting variables, as described in the preceding paragraph. The regression methodology follows that developed in Lamm (1981).

## **2. The model and the data**

The familiar model in studies such as this has retail price as a function of some measure of concentration, where concentration's effect on price is presumed to follow from improved chances for cooperation when a market is controlled by a few firms. Controls for other factors that relate to demand or cost are provided as data allows. In this study, demand side controls include income, population and the commuting variables, which are of considerable interest in their own right. On the cost side, variables are included to approximate the wholesale cost of goods and land values and other variables are included to control for differences in the nature of goods sold.

Following Lamm (1981), 4 years of retail prices (1975 to 1978) are represented by cost of living indices for intermediate budget data as reported by the US Bureau of Labor Statistics (1976c–1979) and these values were deflated using the Consumer Price Index in US Bureau of Labor Statistics (1976a–1979). Two product categories are studied in this paper, household furnishings and clothing. The BLS sample of household furnishings includes household textiles, floor coverings, furniture and electrical equipment (US Bureau of Labor Statistics, 1967). The BLS sample of clothing includes outerwear, underwear and footwear for men, women, girls and boys. Unlike BLS price indices, these budget data were devised for cross-section analysis. Unfortunately, these cost of living indices are not solely a function of retail price levels. They are also sensitive to '... regional differences in consumption patterns and differences in climate ...' (US Bureau of Labor Statistics (1976c–1979). Arguably, regional variation in consumption

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