

Conclusions

This study provides an alternative to USDA's estimates of retail-farm price margins for major U.S. food commodities. These new estimates automatically account for the implications of structural change, the diversity among firms, and the diversity of final products associated with a food market. In contrast, current USDA-ERS estimates fail to automatically account for diversity and structural change in food markets.

Without appealing to market power, both the current and new estimates for seven major U.S. food markets trend upward over the 1980-97 sample period. Although the new estimates appear to be more volatile than the current estimates, the two sets are highly correlated. More significant is the finding that the *responses* of the two sets of estimates are either not statistically correlated or are *negatively* correlated. These differences are explained by the differences in assumptions concerning diversity in food markets.

The new estimates allow for diverse firm-level responses to market changes, a feature that allows for input substitution as the industry allocates production

across different firm-level technologies. The current estimates rule out this source of response by presuming identical firms. Also, the new estimates link rising retail-farm price margins and declining farm shares to changes in demand for the diverse elementary products that consumers actually purchase. Without invoking *ad hoc* adjustments, the current estimates cannot be linked to expenditures on the diverse array of final consumer food products. Expenditure-based measures of composite consumer demand are central to the computation of the new estimates because they directly link changes in demand for food quality and marketing services to changes in retail-farm price margins. Empirical results suggest that the new estimates are more sensitive to changes in the demand for food quality than the current estimates.

Improvements in the new series will emerge from improved estimates of the farm receipts generated from at-home sales. Because away-from-home sales compete for the same farm ingredients, continued growth in away-from-home demand is likely to increase the retail-farm price margins.