And the Winning Method is...Stepwise Regression

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In this research we seek the preferred method for selecting explanatory variables in an automatic manner for a prediction model based on linear regression. We focus on three different methods for variable selection – statistical methods, stochastic search methods and dimensionality reduction methods. For each method we selected one or two representative models, found the optimal configuration for each and then compared the best performing models to one another on three marketing datasets. The research indicates that for marketing applications, the leading method for choosing the model variables is stepwise regression. We attribute this property to the fact that consumers in the market behave in a rational and consistent manner which, when reflected in the database, yields well-behaved datasets. Thus, even myopic stepwise regression methods can find the best set of predictors. Further research is required to generalize these conclusions to other domains. But apparently, in the marketing domain, the winning method for choosing variables to a prediction model is... stepwise regression.

Vertical Contracts and Their Effects on the Cost of Living

Yaron Yehezkel

The paper surveys the theoretical literature that shows how competing retailers – supermarkets and drugstores – can use vertical contracts with their suppliers to facilitate tacit price collusion. Such collusion results in high prices that hurt consumers and reduce social welfare. In an infinitely repeated dynamic price competition, firms can collude on the monopoly prices if they sufficiently care about their future profits. Vertical contracts may enable retailers to facilitate such price collusion, i.e., collude when they are too shortsighted to collude in the absence of vertical contracts. In particular, slotting allowances – the fixed fees suppliers pay retailers in every period – may help retailers and their suppliers to facilitate collusion. Moreover, exclusive dealing agreements between competing retailers and a joint supplier can be anti-competitive.