

Forensic Economics: Some Evidence for New Wine to be sold in Old Bottles

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Abstract:

Wine fraud has also caught some media attention recently with the lawsuits filed by collector William Koch against two Chicago wine auction houses as well as German collector Hardy Rodenstock. The story was also subject of the best-selling book *The Billionaire's Vinegar* by author Benjamin Wallace. In this paper, we find forensic economic evidence that wine fraud may be facilitated by online auctions which have become a fascinating new type of economic exchange mechanism. Online auctions have significantly lowered the costs for seller to organize and for bidders to participate in an auction. Indeed, lower costs appear to be the reason why auctions are used more often and for an ever broader range of goods. However, they may also facilitate the exchange of goods that subsequently can be used in fraudulent transactions. In this paper, we look at the online auction market for empty bottles formerly containing premium wine, which could potentially be re-filled and re-sold as premium wine. In fact, there is a relatively active market for empty premium wine bottles on the German eBay site, with about 40-50 offered during an average month. We collected and analyzed a data set analyzing about 260 offerings over a period of 6 month. Using a Probit model we analyze the factors explaining when an empty bottle is actually sold versus when it remains with the seller. In a second model, we analyze the successful transactions using a hedonic model to explain the final auction prices for empty premium wine bottles. Interestingly, the most powerful variable explaining both the incidence of sale and the price of an empty bottle is the price a full and presumably authentic bottle could potentially fetch in the marketplace. We argue that this is also powerful evidence that the empty bottles might go on to be refilled. Why otherwise would someone want to pay more than 100 Euros for an empty bottle of 1982 Chateau Lafite-Rothschild rated with 100 Parker points? Presumably, because it is worth a lot more once it is filled-up again.

Key words: auctions, fraud, forensic economics.