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ETHICS AND ECONOMICS: THE ROLE OF
INFORMATION IN THE EGG MARKET
IN PALMERSTON NORTH

A thesis presented in partial fulfilment
of the requirements for the degree of

MASTERS OF PHILOSOPHY (BUSINESS STUDIES)
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ABSTRACT

This research examines the relation of ethics to the economic model, focusing on how producers with ethical standards above those stipulated by law will need to use information markets to communicate their product's existence to consumers. Taking the pro-competitive view of advertising, Davis, Kay and Star (1991) **hypothesise** that there are four types of goods, each of which falls into a certain advertising/sales (AS) ratio and corresponds to a certain level of verifiable information. The goods are: search goods (with low AS ratios, and immediately verifiable information); short-term experience goods (with a higher AS ratio than search goods, and short-term verifiability); long-term experience goods (with the highest AS ratio of all categories and long-term verifiability); and finally credence goods (with the lowest AS ratio of all goods and difficulty in any verifiability). Ethical goods fall into the credence category unless their information can be verified in some way.

A case study of the egg market in Palmerston North was used to examine research questions based on these hypotheses since deregulation of the egg industry during 1986 to 1988 had led to the cessation of generic marketing and the introduction of new egg types. In particular, free-range eggs and battery eggs became differentiated, with free-range eggs perceived by some consumers as ethical, and battery eggs as unethical.

This research estimated the AS ratios for these two types of eggs in Palmerston North, using two different estimates of advertising expenditure by egg sellers in the Manawatu (producers, wholesalers, and producer cooperatives) and Palmerston North (retailers). The research also examined the verifiability of the information presented to consumers when they purchased eggs.

Although the research was a case study and was therefore limited in terms of generalisability and statistical testing, the findings were consistent with the hypotheses put forward by Davis et al (1991). The study recommends that research on a wider range of goods be undertaken to test the hypotheses of Davis et al (1991) statistically. The study also recommends that the industry improves information markets and hence product differentiation, by improving the verifiability of information on free-range eggs.

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