



Economist: How Coke stayed at a nickel for seven decades

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When economist Daniel Levy, a visiting professor at Emory and professor at Bar-Ilan University in Israel, toured the Coca Cola museum with his children, he thought he heard the guide say that a bottle of Coca Cola had cost 5 cents for decades.

“Can you say that again?” he asked the guide. Levy scratched his head: How can that be?

That sparked an investigation to find out how the price of one of America’s marquee products could have gone unchanged for seven decades. Levy and his research colleague, Andrew Young, an economist at West Virginia University, talked about what they found on [NPR’s Morning Edition](#).

How could a product – any product – stay the same price through three wars, the Great Depression, prohibition, hundreds of competitors, and countless lawsuits?

A big part of the answer turned out to be a visit by two lawyers to the president of Coca-Cola. They offered to buy the bottling rights for Coke. It was 1899, and Coke was only sold at soda fountains. The

president was not impressed, but he still made a deal allowing them to sell bottled Coke, and he would sell them the syrup at a fixed price – forever, according to the NPR story.

Once 5-cent bottled Coke became an American fixture, the company was stuck, according to Levy, because if the price of the drink increased, Coca Cola would not see any of the additional income. The company therefore had a strong motivation to maintain the low price in order to sell as much as possible. They blanketed the nation with ads prominently featuring the 5-cent price tag.

“Since everybody was brainwashed – people saw these ads all over – it was hard for anybody to increase the price,” Levy told NPR.

Eventually, the contract was renegotiated, but the price of a Coke stayed the same for a while because Coke vending machines were built to accept only nickels. At one point, the head of the company even asked the U.S. Treasury to issue a 7.5-cent coin. In the end, according to the NPR story, inflation killed the nickel Coke, but the price had lasted more than seventy years.

To listen to the entire story, click [here](#).

To read Levy's article on price rigidity in Coca-Cola in *The Journal of Money, Credit, and Banking*, click [here](#).

—Steve Frandzel

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Link to the article:

http://www.emory.edu/ACAD_EXCHANGE/whats_new/daniellevy.html