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Research Article

TO INVESTIGATE THE ROLE OF GOODWILL COST ON THE INFLATION (CASE STUDY: KERMANSHAH CITY, IRAN)

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ABSTRACT
Critical and consistent inflation has been one of the economic problems of Iran for at least the past 40 years and imposing heavy costs on the society. So, it is very important to identify its root causes and factors. One prominent factor that has been noticed recently is transaction costs. There are different types of transaction costs. The cost of goodwill is an example of this factor that has been imposed on the distribution system of Iran's economy for a long time. The purpose of this study is to investigate the role of goodwill costs on inflation. Therefore, marketing margin of retailers is used as a substitute for inflation. This is a research survey. Required data are collected by interviewing a sample, in Kermanshah, containing 50 business units at 2012 (28 units located in the city's main market and 22 units in country). Results are as follows: (1) Goodwill costs of business units located in the main market of the city dedicated, on average, 76% of the costs of sample shops. The corresponding figure is 58% for other regions. (2) Each unit of increase in the ratio of goodwill cost to the purchase value increases the ratio of retail marketing margin to the purchase value for 1.8 units. (3) High share of goodwill costs in marketing margin and the significant growth of goodwill value of business units over time have led to higher prices and in turn persistence of inflation in the case studied.

Keywords: *Inflation, Transaction Cost, Goodwill, Marketing Margin, Retail Shop, Kermanshah*

INTRODUCTION
One of the problems our economy has faced with for many years is inflation which has been worsened over time. Generally, inflation can be defined as a general persistent rise in price levels over time. Although there is general agreement about the definition of inflation, there are different views about its origins and nature since this phenomenon has many dimensions and complexities. Some theories consider the increase of the prices of inputs on supply side as the origin of inflation. Another group of theories emphasizes on the demand side factors. Institutionalists argue that institutional and structural factors specific to each economy also affect inflation. Transaction costs are among institutional factors that play an effective role in creating inflation. Sameti *et al.*, have proved the positive effect of these costs on inflation in the economy of Iran (Sameti *et al.,* 2004). Until the publication time of this paper, that is the only study that examined the effect of transaction costs on inflation in Iran. In this study, transaction costs are estimated indirectly through investment gap index. One of the instances of transaction costs within the economy of Iran- which has been neglected in previous studies - is the cost of goodwill. This cost is due to the inefficiency of property law in Iranian legal system. It seems that goodwill cost is one of the important institutional factors affecting inflation within Iran's economy which has been neglected so far in studies. Goodwill cost could strengthen factors of both sides of supply and demand (by increasing the wealth of goodwill owners) through increasing marketing costs. We have seen just one study concerned with goodwill phenomenon and its consequences. Sadr in his study has considered the role of goodwill costs on preventing commercial centers development (Sadr, 2011).
This study aims at answering this question that what is the impact of goodwill cost -as one of the kinds of transaction cost- on inflation? In order to answer this question the contents are organized in six sections. At first, essential concepts and the problem of this research are presented. Then the theoretical foundations related to this topic and the methodology is introduced. Later the role of goodwill cost on marketing margin and thus inflation is determined for a sample of 50 units of retail shops of Kermanshah city. Finally we would have a summary and conclusion.

Definition of Concepts

Keywords introduced here are the fundamental concepts of this research. These concepts are: inflation, transaction costs, goodwill and marketing margin which would be explained in the following.

Inflation

Today inflation has been turned into a complex and chronic phenomenon in the economy of Iran which has severely affected the lives of people; therefore knowing this phenomenon has achieved growing importance due to its complex dimensions and its deep impact on the people living. There is a general consensus regarding the definition of inflation and all these definitions represent one thing: inflation is the persistent and prevalent rise of prices. This means that price increase is called inflation when it's related to all or most of the commodities and not of sudden or point nature, but having persistent state. Therefore we technically do not refer prices rise of some commodities as inflation. Also increase of prices at once is not called inflation (Shakeri, 2012). Therefore persistent and gradual rise of price levels is called inflation. This definition protrudes two points related to the concept of inflation: the first point is that rise of price level should be related to all commodities and secondly this rise should be related to a long period, so to call it inflation. Also to compute inflation rate from the percentage change of price index, the ratio relative to the base year is utilized so that usually inflation rate is computed as the percentage change of price index in that year compared with the previous year. Of course this is sometimes computed for a month relative to its previous month, or at severe inflation conditions for a week relative to its previous week or even for an hour of a day compared with that hour of the previous day (Dadgar, 2011).

Transaction Cost

For the first time, Ronald (1937) introduced the notion of transaction cost. Although he did not mention explicitly the transaction costs, but we could consider it as a basis for the formation of extensive discussion about transaction cost. This is affirmed by his quote that "I think the thing that would be given much attention in the future, is the important role of this article in introducing transaction cost into the economic analyses" (Coase, 1992). He, by discussing the role of management factor in coordinating firms, attempted to answer this question that "**Why was it needed if the pricing system provided all the coordination necessary?**" (Coase, 1992). There are various definitions provided for transaction cost. North defined transaction costs as the costs of exchanging property rights, contracting costs and costs of their implementation and also the costs associated with benefits derived from division of labor and specialization (North, 1986). He introduced four factors as the origins of transaction costs (North, 2005): Measurement of multiple valued dimensions of a commodity or service, protection of private property rights, integration of the fragmented knowledge of a society and the implementation of agreements. According to North's belief, the heaviness of the cost of acquiring information is the key to understand transaction cost (North, 1998). As the commodities and services being exchanged, have several characteristics and features. Awareness of these features has some costs for both sides of the transaction. These costs are of more importance when one side of transaction has a higher knowledge. He also reminds us great resources that are devoted to transactions in each economy by pointing to some kinds of transaction costs; It is simply a matter of rational contemplation to find out what resources and attempts are devoted to the measurement, implementation and oversee of contracts. Disclaimers, Warranties, trademarks, resources dedicated to classification and grading, time and motion studies, obligations of brokers, arbitration, mediation and of course the whole trial process, all reflect the ubiquity of measurement and application (North, 1998). North in presenting operational definition for measurement of transaction costs, equals it as the value of the resources used in activities related to transactions (Wallis and North, 1988). Williamson considers transaction costs as the friction present in physical systems (Williamson, 1985). Arrow (1969) describes these costs as the costs associated with the administration of economic system. Therefore Coase was the initiator of substantial reforms in economic analyses by introducing transaction costs which includes throwing away the assumption of neoclassic economics of transactions without cost. In this regard North reminds that neoclassic economics yields the claimed results just when there is no transaction cost (North, 1998). In fact these costs contain all the resources used by parties somehow engaged in implementation of transactions.

The importance of transaction costs in economic performance is so high that Coase says welfare of societies is dependent upon that (Figure 1). "Welfare of human societies is dependent upon commodities and services, which it is affected by the productivity of economic system. Also productivity of economic system is dependent to the specialization and division of labor. The specialization depends on the number of transactions and the lower the transaction cost per capita, the higher the possibility of increasing the number of transactions and specializations" (Coase, 1998). Based on his view, understating the performance of economic system without considering transaction costs is impossible. "Without the notion of transaction costs, which is extensively absent from the current economic theory, understanding the performance of economic system is not possible and we couldn't explain much of the problems and we do not have any basis for the determination of policies" (Coase, 1988).

The amount of transaction costs in each country depends on its institutions. In fact these are institutions of a society that direct economic performance. Institutions of a society always are a combination of those institutions increasing transaction costs and those decreasing that. Institutional frameworks of underdeveloped countries often increase these costs and act in a direction so that makes economic activities less productive. North explains institutional frameworks of these societies as, "these opportunities mostly facilitate those activities which encourage re-distribution and not manufacturing activities, makes more monopolies than to create competitive conditions and are limit more opportunities than to create them. Educational investment that boosts production happens less. Organizations that are developed under these conditions are more effective but from the aspect of making society less productive and lowering the power of structures appropriate for manufacturing" (North 1998).

In Iran's economy, one of the institutions increasing transaction cost is goodwill which is imposed on the distribution system due to the inefficiency of property law (Sadr, 1390). This institution became the origin of a kind of transaction cost in Iran's economy which could be named as goodwill cost. Based on the operational definition of Wallis and North (1988), these kinds of costs constitute some part of transaction costs. In this study we explain the role of this part of transaction costs on inflation.

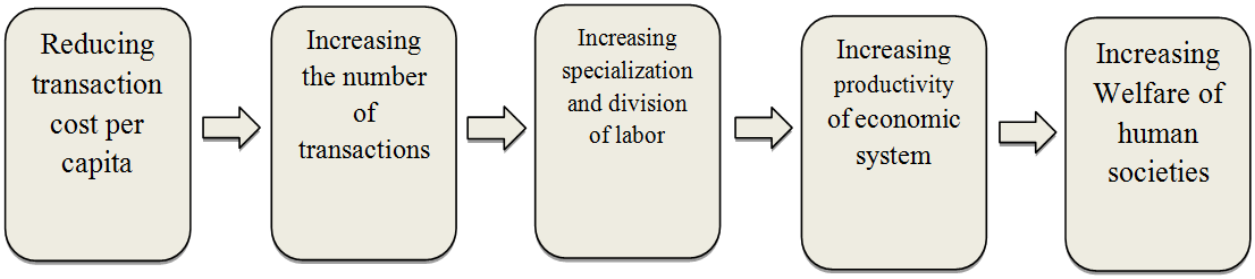

Figure 1: The relationship between welfare and transaction costs (Source: extracted from the context of the research)

Goodwill

There are different definitions provided for goodwill. The author of law terminology describes two meanings for it: "the equivalent of money that the tenant occupied the business place gets from transferee for its Career in that place about attracting clients, which is an invisible asset and not an income, so tax does not belong to it" and the second meaning as "the equivalent of money which owner of the business place newly constructed gets from his/her tenant in addition to the rent in the first rental contract. This money is an income being taxable" (Jafari, 2002).

Although goodwill was first appeared in Iran legal texts in 1938 (Keshavarz, 2005), but this institution was popular among people's trade customs. Later this custom was known as the cause of entering goodwill into the legal texts of Iran. The last law adopted about goodwill is the landlord-tenant law dated 1997. According to article 6 of this law, the origin of goodwill is the money received from tenant in addition to the rent at the time of making rental contract to deliver the business place to him (Abbasi Dakani, 2010). In fact according to this law, landlord is permitted to acquire some extra money from

tenant under the title of goodwill. This meaning and conception from goodwill right is the one being adopted for this research.

Marketing Margin

The term marketing margin is mostly used in researches related to agricultural products. This is defined as the price difference between the amount being paid by consumer and the amount producer receives (Beykzadeh and Chizari, 2007). Also in another definition it was described as the price difference between marketing chain rings (Ashrafi *et al.*, 2005). In general, total marketing margin is equivalent to the difference between the price received by producer and the price paid by consumer. Total marketing margin is composed of two components, namely retail margin and wholesale margin. In this study according to the purpose, by marketing margin we mean retail margin. The retail marketing margin is defined as the difference between the sales and purchasing value of sales by retail units (Hertog, 1994). In this study retail marketing margin is computed based on the conditions of the study by some adjustments.

To determine factors influential on marketing margin, several models are introduced which some are presented here:

- Mark-up model: In this model, marketing margin is a function of retail price and marketing costs.
- Relative margin model: In this model, marketing margin is a function of retail price, commodity amount and the cost of marketing agents.
- Marketing margin model: In this model, marketing margin is a function of supplied product and the costs of marketing.
- Rational expectations model: In this model, in addition to the price of product and marketing cost, expected price, interest rate, the ratio of inventory to sale volume for each period, financing method and sales loss are used (Beykzadeh and Chizari, 2007).

Choosing models is based on informational needs and statistical limitations. Based on available statistics, here we have chosen mark-up model.

Research Problem

High and persistent inflation is one of the most important problems of the economy of Iran during the last century so that the average inflation rate for a period of 76 years is 13.2 percent.

Table 1: inflation rate in Iran during 1937-2012

Year	Inflation	Year	inflation	Year	inflation	year	Inflation
1937	21.2	1956	8.8	1975	9.9	1994	35.2
1938	8.8	1957	4.4	1976	16.6	1995	49.4
1939	8.0	1958	1.0	1977	25.1	1996	23.2
1940	13.8	1959	13.0	1978	10.0	1997	17.3
1941	49.5	1960	7.9	1979	11.4	1998	18.1
1942	96.2	1961	1.6	1980	23.5	1999	20.1
1943	110.5	1962	0.9	1981	22.8	2000	12.6
1944	2.7	1963	1.0	1982	19.2	2001	11.4
1945	-14.4	1964	4.5	1983	14.8	2002	15.8
1946	-11.5	1965	0.3	1984	10.4	2003	15.6
1947	6.6	1966	0.8	1985	6.9	2004	15.2
1948	11.1	1967	0.8	1986	23.7	2005	10.4
1949	2.3	1968	1.5	1987	27.7	2006	11.9
1950	-17.2	1969	3.6	1988	28.9	2007	18.4
1951	8.3	1970	1.5	1989	17.4	2008	25.4
1952	7.2	1971	5.5	1990	9.0	2009	10.8
1953	9.2	1972	6.3	1991	20.7	2010	12.4
1954	15.9	1973	11.2	1992	24.4	2011	21.5
1955	1.7	1974	15.5	1993	22.9	2012	30.5

Source: The Central Bank of Iran

This inflation rate has increased price of commodities and services over 13000 times during these 76 years (Table 1). High inflation is the origin of many social and economic problems. It is evident that such an important problem is directly related to people livings, and that needs more attention and consideration to identify its causes and roots and also efforts to provide suitable alternatives to cure it. Considering all factors affecting inflation is greatly extensive and it is not possible to include all in a study. Therefore in this article, we specifically consider transaction cost as a factor causing inflation. Transaction costs themselves include various kinds and are function of society's institutions. One of the transaction costs of Iran's economy which this study focused on is goodwill cost. This phenomenon has been emerged for years in customs, trade transactions and relationships of people. The reason of its entrance into the law was this customary status and commercial habits. But during the years it departed from the meaning intended by jurists and became the origin of many problems in the market of business estates. One of these problems is the exaggeration of inflation. Therefore the main problem of this research is to investigate the role of goodwill costs - as an instance of transaction cost in Iran's economy- on inflation.

MATERIALS AND METHODS

Theoretical Foundations and Methodology

There are different views to inflation which each devotes to one of its dimensions. There are also controversies regarding its nature. Classicists and monetarists consider the origin of inflation as demand appeal and thus a completely monetary phenomenon. According to monetarists view, inflation is just created through the increase of money volume and pressure of demand. Some ascribes it to the pressures of production and factors of supply side and believe that increase of the price of inputs in form of production cost increase, causes inflation (Shakeri, 2012). On the side of supply, in addition to the price rise of inputs, there is some institutional and structural factors which cause the increase of the price of commodities and services and in turn inflation. These institutional factors are sometimes acting as one of the important and influential factors in creating inflation, especially in economy of those countries with inefficient institutions. But unfortunately these institutional factors are often neglected in the analysis of inflation conditions. Structuralists have paid attention to these factors in addition to the aforementioned ones as the factors causing inflation. Structuralists introduce some other important reasons which could help us in understanding complexities of inflation. They believe that we should pay attention to structural and institutional factors and also their interactions with monetary and real factors in order to be able to correctly understand inflation (Shakeri, 2012).

One of the main factors influencing inflation is final price of commodity for retail business units. The final price is composed of production costs and marketing margin. Production costs are equal to the sum of the transformation and transaction costs (North, 1994). Based on the definition provided by North & Wallis (1988), marketing margin is part of transaction costs; thus inflation could be considered as a function of transaction costs. Studies performed indicate the positive effect of transaction costs on inflation (Sameti *et al.,* 2004). Transaction costs are themselves of various kinds and a function of society's institutions. One of the transaction costs being imposed on distribution system of Iran's economy for years is goodwill cost of business units. This cost which is attributed to the goodwill value of commercial units, has taken a more serious form after drastic and excessive rise of value of these units. It's notable that in most cases, rise of goodwill value is not an excess value created by the application of capital input nor by labor and not even by increasing productivity of land input, but caused by increase of economic rent of business unit which is due to the limitations and inefficiencies of regulations and rules governing sales and transfer of business units and law of landlord and tenant and of tax imposed on transactions related to business estates (Sadr, 2011).

This study explains the effect of goodwill costs on inflation through marketing margin. The selection of marketing margin as the influence channel of goodwill cost on inflation is because goodwill is a subject at micro-level (firm) while inflation is a macro variable. Thus creating relation between these two in a direct manner is not possible. Therefore marketing margin variable is used as the substitution variable for inflation which is determinant in price rises and inflation. As said before, several factors are influential on

market margin which according to mark-up model the most important ones are price and costs of marketing. Goodwill is one of the determining variables for marketing costs in Iran's economy which was neglected in previous studies. The total margin of market is divided into wholesale marketing margin and retail marketing margin. The latter is the focus of our research. In this study the role of goodwill costs is studied in retail marketing margin (as one of the factors determining inflation). Increase of goodwill cost increases retail marketing margin and in turn increases general level of prices. Rise of general level of prices over time causes inflation. Since according to the law of landlord and tenant (1997) increase of goodwill value for each year is proportional to the previous year's inflation, goodwill purchasers expect at least an increase of goodwill value equal to inflation rate. This increase of goodwill costs exaggerates marketing margin and in turn inflation rate of next period (Figure 2).

The necessary Data was collected through a survey. Answering the main question of this research was done according to statistical evidences collected and utilizing econometric tools. The sample was chosen from retail shops of Kermanshah city. The reason for selecting Kermanshah was the convenience accessibility of researchers to the population. The needed information was collected through person interview with people in-charge of business units. This method of information extraction has much more compatibility with methodological bases of institutional economy as information is extracted from the actual environment directly and without any mediation (Hodgson, 1998).

Role of Goodwill Cost on Marketing Margin and Inflation

As there was no needed information or statistics available to compute goodwill cost from information resources, we utilized survey method to compute goodwill cost and marketing margin and in turn explaining role of goodwill cost on inflation in Kermanshah city.

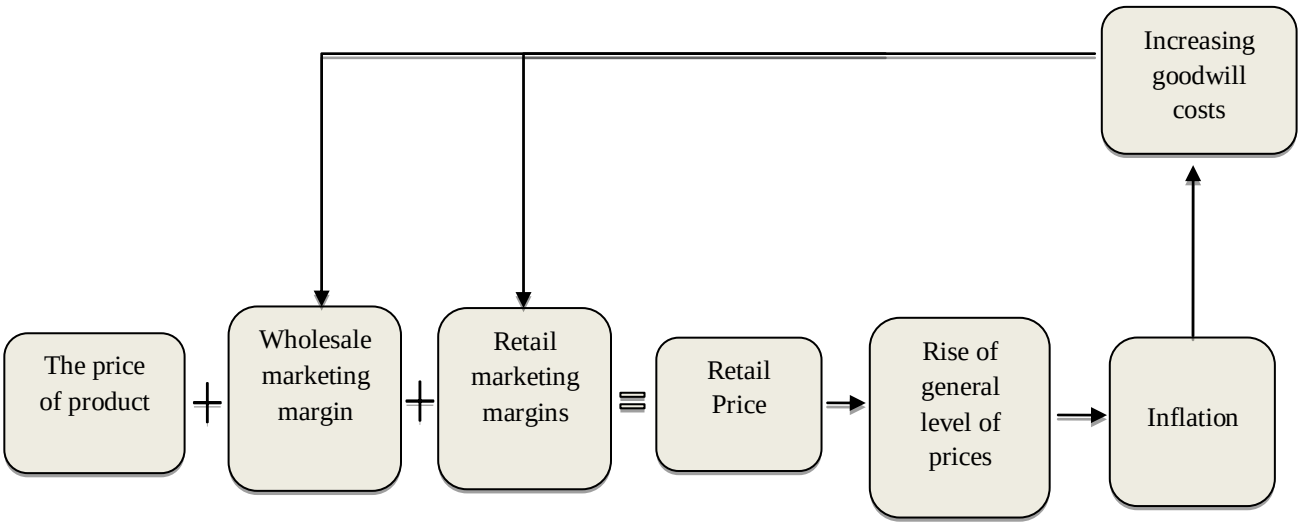

Figure 2: Relationship between goodwill costs and inflation (Source: Research findings)

All retail shops of Kermanshah city are as population of this research except those retailing motor vehicles and motorcycles. Statistical unit of this study is a retail shop recognized as class H in public survey of shops in 2002 in Kermanshah city which its activity code is a 4-digit code related to the standard classification of economic activities (Statistical Center of Iran, 2004). Economic information used here is for year 2012 and the time of survey conducted was spring of 2013.

Here to select sample we used stratified random sampling method. In doing so, 50 sample shops are chosen based on the relative number of shops within each class, distributed across 4-digit ISIC codes. The information regarding the number of shops was extracted from public survey of shops in 2002. Then according to the purposes of the research, purposive sampling was used. In this method, initially the total

population is divided to two parts; the city main market and country market. Then, since business units located in the city main market comprise the highest volume of consumed commodities, 60% of the samples in each activity code are devoted to the main market of the city and 40% to the country market. Business areas are divided to main city market and country according to the custom of the region. Accordingly, 28 shops are selected from the main market and 22 units from the country market.

Data Description

Information related to the most significant running costs for each business unit in the main market and inflation of the country is shown in Table 2 and 3, respectively. Goodwill of 12 units out of the total 28 business units studied, which were located at the main market of the city, were rental. The average annual rental fee for these units was 159.4 million Rials. For the units located at the main market, the minimum of this cost was 60 million Rials and the maximum was 300 million Rials. The rest were the owner of the goodwill of the units under their supervision. These units pay an amount as rental fee to the owner of the property.

Table 2: Some of the most important costs of business units located at main market of city (thousand Rials per year)

	ISIC Code	rental fee	salaries and wages	transportation costs	taxes and duties	Telephone Costs	Electricity Costs
1	5221	-	36000	36500	4000	1800	3000
2	5223	-	-	-	5000	1800	6000
3	5223	300000	48000	-	1000	1200	900
4	5223	-	66000	1200	10000	600	2400
5	5223	132000	120000	40000	11000	2400	15000
6	5223	-	-	18000	3500	1800	6000
7	5223	-	-	2880	1000	900	7800
8	5223	180000	120000	-	-	480	12000
9	5271	-	48000	18000	6000	1800	1800
10	5271	144000	36000	48000	15000	2100	1800
11	5273	-	-	8000	12000	3000	6000
12	5273	-	-	20000	17000	3000	900
13	5275	145200	-	7200	6200	480	3600
14	5275	-	18000	8640	4800	1200	1200
15	5275	180000	30000	24000	2500	360	2400
16	5275	180000	-	2400	-	480	900
17	5276	-	54000	12000	1500	2400	3000
18	5277	-	-	40000	60000	1200	3600
19	5279	-	48000	18000	16500	4200	7200
20	5281	192000	54000	12000	19000	3600	18000
21	5285	60000	-	960	-	1200	2400
22	5288	96000	-	2500	-	1500	3600
23	5288	-	180000	-	-	6000	3000
24	5292	-	-	2000	5000	900	6000
25	5295	144000	-	9600	1500	1200	2100
26	5299	159600	-	-	6000	2400	3000
27	5299	-	36000	4800	4800	3600	6000
28	5299	-	48000	12000	15000	2400	4800

Source: Research's findings

As this cost is negligible compared with other costs, it is not presented in table. Out of 28 units studied, 15 ones had workers and so paying annual wage and salaries. Average of annual salaries and wages for

the units located at the main market is equivalent to 62.800 million Rials. Following the rental fee of goodwill, this cost is the most significant cost for these units. 5 units out of these 28 units didn't used to pay transportation costs. The average of this cost in the rest of units (21 units) was 14,580 million Rials. Just 5 units didn't used to pay tax and duties. The average tax and duties payable by the rest (23 units) was 9,926 million Rials. Also it seems that most of the units have paid this cost in excess of its actual amount due to feeling lack of safety and security. Among the 22 studied units of the country market, 7 units were rental. The average annual rental fee was 65,657 million Rials. Also, the minimum and maximum annual goodwill rental fees for these units were 39,600 and 114 million Rials, respectively.
Out of the 22 units located in the country, 9 units had workers. So, they used to pay wages and salaries. The mean annual salary was 76,889 million Rials in these units. Also this cost was the most significant one after goodwill rental fee. Just 2 units out of these were not paying transportation costs. The average of this cost was 28,480 million Rials for other 20 units. Also the mean tax and duties payable by 20 units were 6,355 million Rials.

Table 3: Some of the most important costs of business units located in the country market (thousand Rials per year)

	ISIC Code	rental fee	salaries and wages	transportation costs	taxes and duties	Telephone Costs	Electricity Costs
1	5221	-	-	-	1000	600	600
2	5221	48000	84000	31200	1000	480	600
3	5222	-	-	12000	1500	600	8400
4	5222	114000	36000	18000	1800	1200	10800
5	5222	39600	-	5400	-	900	6000
6	5223	42000	36000	30000	-	2400	2700
7	5223	-	-	36000	5000	1200	6000
8	5223	48000	-	24000	4800	-	4500
9	5223	-	60000	60000	20000	6000	1200
10	5223	114000	-	3600	5000	3600	24000
11	5223	-	180000	12000	15000	3000	720
12	5223	-	-	-	15000	2100	1800
13	5223	-	20000	3000	7000	2000	1200
14	5223	-	36000	1200	2000	1800	3000
15	5223	-	-	2400	3000	3000	4200
16	5223	-	-	5000	1000	600	15000
17	5279	-	-	20000	10000	2100	6000
18	5283	-	180000	240000	18000	1800	3600
19	5283	-	-	36000	5000	2400	420
20	5283	54000	-	4800	7000	3000	600
21	5284	-	-	5000	1000	1800	-
22	5287	-	60000	20000	3000	3000	3000

Source: Research's findings

Table 4 and 5 show the summary of the results of the interviews conducted with these units about the role of goodwill cost on marketing margin of these units located in the main market or the country market of Kermanshah, respectively. Goodwill cost for a rental unit is equivalent to the annual goodwill rental fee that the unit pays. It's notable that the goodwill cost for the units not being rented was computed by extending information of similar units. Also the opinions of specialists in the field of real estates were used to obtain goodwill rental fees for those units. In this research the opportunity cost of the management of the business units' owners were not included in costs of salaries and wages. The total cost of the

business unit included goodwill rental fee, rental fee that was paid by the owner of goodwill to the owner of property (only for units that person in-charge of business unit was only the owner of goodwill), the payroll costs of labor, cost of transportation, costs related to taxes and duties, costs related to telephone, electricity, gas and water, advertising and marketing costs, and finally the other running costs of the business unit. Normal profit figures for each class has been asked in surveys conducted from person in-charge of business unit.

As evidenced by the results of this study, the average annual goodwill cost for units located at the main market of the city is 210,557 million Rials. The values of this cost range from 52,800 to 640 million Rials. The total average of annual costs of sample shops in this area was 277,454 million Rials. In other words, on average 76% of the total costs of each unit located in this area is dedicated to goodwill costs. The average annual goodwill cost is 86,945 million Rials (58% of the total average of the costs of each unit within this area) for units located in the country.

Table 4: Summary results extracted from interviews with retail units located at main market of city (thousand Rials per year)

	ISIC Code	goodwill cost	total costs	Normal profit for each Guild	retail marketing margin	Ratio of goodwill cost to total costs
1	5221	385000	466300	25	315000	82.56
2	5223	74000	86800	12	480000	85.25
3	5223	300000	352000	12	1080000	85.23
4	5223	148000	228200	12	600000	64.86
5	5223	132000	333000	15	547500	39.64
6	5223	52800	84500	12	172800	62.49
7	5223	74800	90980	12	151200	82.22
8	5223	180000	312480	12	504000	57.6
9	5271	117000	192800	15	216000	60.68
10	5271	144000	247100	15	630000	58.28
11	5273	320000	353600	17	255000	90.5
12	5273	180000	221500	15	270000	81.26
13	5275	145200	176680	40	576000	82.18
14	5275	55200	103640	40	432000	53.26
15	5275	180000	251260	40	960000	71.64
16	5275	180000	184880	50	600000	97.36
17	5276	320000	394400	20	240000	81.14
18	5277	444000	584200	20	2400000	76
19	5279	192000	289380	12	432000	66.35
20	5281	192000	298600	12	360000	64.3
21	5285	60000	65060	15	105000	92.22
22	5288	96000	105600	15	1417500	90.91
23	5288	240000	429000	25	720000	55.94
24	5292	320000	334900	25	150000	95.55
25	5295	144000	170400	40	300000	84.51
26	5299	159600	183000	3	876000	87.21
27	5299	420000	489050	3	1095000	85.88
28	5299	640000	739400	17	612000	86.56

Source: Research's findings

The weighted average of the share of goodwill costs out of the total costs of retail business units of Kermanshah city is 68%. Since all the costs of business unit should be supplied from marketing margin,

high share of goodwill costs indicates the determining power of this section of costs in marketing margin and therefore in the price paid by consumer. Hence increase of goodwill cost (due to the increase of goodwill value) would cause increase of marketing margin. Obviously the share of essential commodities (due to lower price tension) would be higher from this marketing margin increase. Considering the high share of essential commodities in the computation of consumer price index (CPI), marketing margin increase leads to an increase of CPI and exaggerates inflation. In order to estimate the role of goodwill cost in marketing margin we would continue the article by investigating the relationship between these two variables using sample data.

Table 5: Summary of the results extracted from interviews with retailers of the country market (thousand Rials per year)

	ISIC Code	goodwill cost	total costs	Normal profit for each Guild	retail marketing margin	Ratio of goodwill cost to total costs
1	5221	111,000	117,200	35	378,000	94.71
2	5221	48,000	167,480	30	365,000	28.66
3	5222	28,800	51,300	20	360,000	56.14
4	5222	114,000	182,600	20	432,000	62.43
5	5222	39,600	52,380	20	480,000	75.6
6	5223	42,000	113,100	12	302,400	37.14
7	5223	41,000	89,200	12	432,000	45.96
8	5223	48,000	81,300	10	180,000	59.04
9	5223	192,000	339,400	5	365,000	56.57
10	5223	114,000	151,100	12	172,800	75.45
11	5223	60,000	271,800	10	360,000	22.08
12	5223	60,000	80,940	10	360,000	74.13
13	5223	40,000	77,540	12	216,000	51.59
14	5223	54,000	99,320	20	264,000	54.37
15	5223	27,000	39,600	12	100,800	68.18
16	5223	30,400	52,000	12	432,000	58.46
17	5279	74,000	131,300	20	400,000	56.36
18	5283	540,000	984,120	10	1,320,000	54.87
19	5283	62,400	106,400	25	150,000	58.65
20	5283	54,000	81,400	15	180,000	66.34
21	5284	21,600	29,400	-	-	73.47
22	5287	111,000	200,000	12	240,000	55.5

Source: Research's finding

Estimation of Econometric Model

In order to approximate the role of goodwill cost on marketing margin, an econometric model was estimated. In doing so, marketing margin (as the substitution of inflation) was considered as a function of goodwill costs and of other costs.

It should be said that out of 50 sample units, information related to 1 unit was incomplete and of 5 ones seemed outlying, and thus being omitted from the final estimation. One unit was encountered with a severe decline in marketing margin due to a decline in his last year's sales. Also it seemed that in one another unit, motivations other than profitability, such as employment, governed on its decisions, therefore there was no powerful motivation present to increase marketing margin. In addition, owners of all these 5 units were the owners of the goodwill of their business units. As the goodwill cost for these units has been considered as implicit cost (these units were located at the most central point of the main market and thus their goodwill opportunity cost was considered very high relative to similar units)

therefore it is viewed less important in firm's decisions. So it is natural to see that marketing margin in these units is considerably lower in comparison with implicit costs.
Eventually the model was estimated based on mark-up pattern using EViews software with the information of 44 units. It should be mentioned that in mark-up model, marketing margin is a function of product price and marketing costs.

$$MM= f (P, Z) \quad (1)$$

In above formulae, P denotes product price and Z indicates marketing costs. As here marketing margin is computed for the group of commodities being sold and bought by business unit, the price of a product is replaced with the value of the purchases of business unit. In our model, all variables are divided by the value of the purchases of business unit and also marketing costs are divided into two categories of goodwill costs and other costs. Therefore approximated model is as:

$$MM/P= \alpha + \beta\ GW/P+ \gamma\ S/P \quad (2)$$

MM denotes marketing margin of unit, GW indicates goodwill cost of business unit, S refer to other costs and P shows the value of the purchases of each unit. The approximation results indicate a positive significant relationship between goodwill cost and marketing margin (Table 6).

Table 6: Results obtained from model approximation

Variable	coefficient	Prob
GW/P	1.886946	0
S/P	0.387065	0.6214
A	0.079213	0.0001
R^2= 0.76 **$\overline{R^2}$= 0.75**	**F=67.11(0.0000)**	

Source: Eviews Software output

The results of model approximation show that each unit of increase in the ratio of goodwill cost to the purchase value of business unit causes a 1.8 unit of increase in ratio of marketing margin to purchase value. These results deny any significant relationship between other costs and marketing margin. The reason lies in the negligible share of other costs in the studied units compared with goodwill cost. Also Coefficient of Determination equals 76%. This means that the independent variables present in the model are able to explain 76% of the variations of the dependent variable. In addition F statistic indicates that the overall regression is significant. The results of the tests examining classic assumptions of the regression are briefly presented in Table 7.

Table 7: Test of classic assumptions about the estimated model

Classic assumptions	Test	Test Statistic	Prob
Homoscedastic	White	2.209045	0.085793
Normality	JB	3.653491	0.160936
Function form of regression model	Ramsey Reset	0.104486	0.748195

Source: Eviews Software output

Goodwill purchasers (it is better to say investors investing in goodwill) expect two types of earnings out of this investment.
The first is the profit due to the price rise or rise of goodwill value and the other is the income obtained from renting it (opportunity cost of goodwill in current period). The attraction of investment in goodwill is mostly due to the increase of goodwill asset. The survey indicates that annual growth of goodwill value is over 50% (table 8).

Table 8: Comparing goodwill value of some business units in different years

Year of purchase	Purchase price (thousand Rials)	goodwill value in 1391 (thousand Rials)
1361	1000	7000000
1362	3000	5000000
1378	140000	8000000
1380	120000	1200000
1382	400000	8000000
1382	400000	5000000
1389	800000	2400000
1391	2500000	5250000

Reference: Research findings

Although just 76% of the total marketing margin was explained by this model, we should note that goodwill causes marketing margin rise in two ways. One is through the opportunity cost of goodwill in current year and the second is through the rise of goodwill value in next year (Based on Law of Landlord and Tenant 1997 which dictates an increase equivalent to the inflation rate of previous year applied to the goodwill value of current year) and in turn increasing rental fee for future periods. The approximated equation just considers the effect of goodwill cost on marketing margin through rental fee (opportunity cost of goodwill in current period).

Accordingly some part of the impact which could be higher than the 50% of the total impact of goodwill on marketing margin in trade boom periods (Table 8) is not inserted into this approximation. Both impacts of goodwill on the costs of business unit require time series data. This means having access to information similar to the extracted one here for a time period of at least 30 years, which is not possible now.

Furthermore in this research just marketing margin and goodwill cost of retail units were taken into account while marketing margin and goodwill cost of wholesale units also influence on marketing margin and therefore price index and inflation which their investigation requires an independent study.

Summation, Conclusion and Recommendations

Different institutional and structural factors influence inflation in Iranian economy. One of the factors being neglected in researches is transaction costs. This is so while studies indicate the considerable and growing share of transaction costs in economies and in fact this represents an increase of the share of transaction costs in creating inflation.

There was just one internal study found which investigated the role of transaction costs on inflation through indirect computation of transaction cost. In the present study we investigated the role of goodwill cost, as an instance of transaction costs influential on inflation. This cost, which is due to the inefficiency of law in our country, has been imposed on distribution system for years. In this study information related to goodwill cost were collected directly through personal interviews with retail business units in Kermanshah city which yielded below results:

1. The average annual goodwill cost for sample business units located at the main market of Kermanshah city was 210,6 million Rials which on average devoted 76% of the total costs of retail units located in this area.
2. The average annual goodwill cost for sample business units located in the country market of Kermanshah was 86.9 million Rials which, on average, devoted 58% of the total costs of each unit located in this area.
3. The average share of goodwill cost out of the total costs of retail shops of Kermanshah city was 68%.

The high share of goodwill costs from the total costs of each business unit well represents its impact on marketing margin so that 76% (R^2 = 0.76) of marketing margin is explainable by goodwill cost. By increasing goodwill cost, in order to cover costs, marketing margin is also heightened which in turn causes rise of price index. This rise leads to higher inflation over time.

4. The effect of goodwill cost on inflation is not limited to a period. And since, according to the obtained evidences, goodwill of business units has a rising trend over time, inflation increase in each period leads to the increase of goodwill cost in that period plus persistence of inflation in next periods.
5. The approximation of econometric model also indicates a positive and significant relationship between goodwill cost and marketing margin.

According to the obtained results, below recommendations are presented:

- Due to the importance of goodwill and necessity of collecting its statistics, it is recommended to predict informational figures necessary for the computation of goodwill cost in questionnaires surveying shops.
- Conducting a study to compute goodwill cost for wholesale units.
- Conducting a study to estimate goodwill cost in other counties of the country. This study gives us the possibility of directly assessing the relationship between inflation and goodwill costs.

Since goodwill cost was found as a variable influential on inflation, we propose a study to predict the measures required to mitigate or remove it from the distribution system. These measures could be:

- Modifying laws related to goodwill in order to make property law more efficient.
- Developing e-commerce as a tool for controlling and reducing economic rent associated with geographic location of business units which could gradually lessen goodwill costs.

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