Postal Rate Commission
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2005) Docket No. R2005-1

SECOND SET OF INTERROGATORIES OF GREETING CARD ASSOCIATION
TO THE UNITED STATES POSTAL SERVICE
WITNESS THOMAS E. THRESS
(GCA/USPS-T7-12-15)
(June 10, 2005)

Pursuant to sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, Greeting Card Association (GCA) directs the following second set of interrogatories to the United States Postal Service Witness Thomas E. Thress.

Respectfully submitted,

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GREETING CARD ASSOCIATION

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GCA/USPS-T7-12.

Please refer to your response to interrogatory GCA/USPS-T-7-11(a) and Exhibit A which was provided in that interrogatory. In your response you stated that "..removing those rate changes which took place prior…, there appears to me to be no evidence of any discernable trend…"

a) Please confirm that on Exhibit A there is a "discernable" pattern in elasticities for Single-Piece and Workshare, between the R97-1 and R2005-1 rate cases.

b) Do the new variables such as employment, declining employment time trend, and Internet experience variables, explain why the elasticity for Single-Piece has drastically dropped since R2001-1 and for workshared has risen significantly? If your answer is "yes", please fully explain why. If your answer is "no", please explain in detail what factor(s) are causing these shifts and increasing divergence between the two FCLM mailstreams.

c) Please refer to the Exhibit A. While you as a USPS witness on demand equation estimations "…have never provided any testimony regarding price elasticity,…" please explain what factor(s) may have caused over the R76-1 to R2005-1 rate cases a "discernable" downward trend in FCLM in USPS-sponsored rate case elasticity research.

GCA/USPS-T7-13.

Please refer to the table for the unit root tests you provided in your response to GCA/USPS-T7-3. d.

a) Please confirm that for Single-Piece and workshared FCLM, there is unquestionable evidence of non-stationarity under all three unit root tests, "Constant and Trend," "Constant and no Trend," and "no Constant no Trend."

b) Please confirm whether your non-stationary dependent variable (volume for single-piece or volume for workshared) and a time trend variable you have included for employment would lead to spurious results. If confirmed, explain how this might have affected your results with respect to (i) the R-squared; (ii) the estimated coefficients; (iii) the coefficients' standard error of estimates; (iv) the t-tests. If not confirmed, please explain why.

c) Please confirm whether your non-stationary dependent variable (volume for single-piece or volume for workshared) and the employment variable would lead to spurious results. If confirmed, explain how this might have affected the results with respect to (i) the R-squared; (ii) the estimated coefficients; (iii) the

coefficients' standard error of estimates; (iv) the t-tests. If not confirmed, please explain why.

GCA/USPS-T7-14.

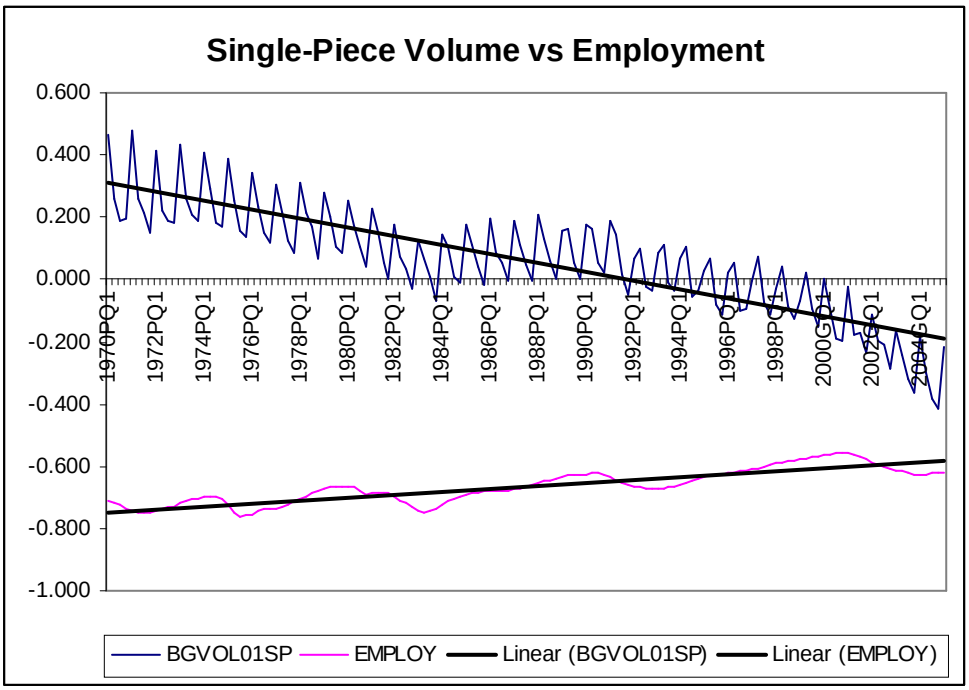
Please refer to your LR-K-64, file R2005data.xls worksheet Eviews.

a) Please confirm that this worksheet provides all the data that was used in your estimation after all adjustments and log transformations.

b) Please confirm that using data in this worksheet and calculating the correlation between single piece volume (BGVOL01SP) and employment variable (EMPLOY) yields a value of 0.676. If not confirmed, please provide the correct correlation for these two variables.

c) Please confirm that the correlation value given in part (b) is high enough that it should be a concern with respect to spurious results in the econometric estimation of the model. If not confirmed, please explain the theoretical and empirical rationale that this is not a spurious result.

d) Please confirm that the following graph based on your own data from the Eviews worksheet referenced above is correct.



e) Given the information in parts (b) - (d), can you still confirm that including the employment variable in your model would not result in spurious results. If confirmed, please provide textbook evidence to prove that it is not spurious (academic citations, mathematical prove, econometric, numerical, or any other proves). If not confirmed, please explain whether your estimation results for demand elasticities, in light of the apparent spurious nature of some of your variables and your response to GCA/USPS-T7-3. c., would make sense and are econometrically correct.

GCA/USPS-T7-15.

Please refer to your response to GCA/USPS-T7-3. a. In your response, you have stated that, "It is sufficient condition, therefore, to have stationary dependent variables."

a) Please confirm that your answer implies that only the dependent variable has to be stationary and that the independent variables do not necessarily have to be stationary. If confirmed, please provide citations from econometric texts to justify your answer. If not confirmed, please explain how you used "Generalized Least Squares."

b) Please confirm that none of the variables you have used in your estimation are first-differenced or are de-trended.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with sections 12, 25(a), and 26(a) of the Rules of Practice.

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Alan R. Swendiman

June 10, 2005