ferences between average profit rates among industries studied resulted primarily from the impact of product differentiation on industry profit rates. The intra-industry variance in profit rates is really a rough measure of the size of the product differentiation barrier to entry in an industry and not a measure of industry risk. It measures the difference in profit rates between the most advantaged firms and the least advantaged firms, this difference increasing as the level of product differentiation increases. Hence, the Conrad-Plotkin study unwittingly supports the inference that in consumer goods industries high industry profits are caused by product differentiation-created barriers to entry. On the other hand, careful statistical analysis reveals that their risk hypothesis has no empirical foundation.

TABLE 1A.—RATES OF RETURN AND INTRAINDUSTRY VARIANCE IN RATE OF RETURN FOR 15 CONSUMER GOODS INDUSTRIES, 1950-65

Industry	Average rate of return 1950-65 [1]	Intra-industry variance in rate of return [2]	Industry	Average rate of return 1950-65 [1]	Intra-industry variance in rate of return [2]
Automobiles	11.129	168.889	Tire and rubber	9.914	31.367
Cosmetics	17.852	101.583	Shoes	9.528	26.143
Drugs	17.998	90.827	Beverages, distillers	9.057	25.591
Radio-TV manufactures	13.721	90.226	Food products	9.075	24.463
Watches	7.335	70.392	Textile apparel manufactures	10.655	23.115
Beverages, brewers	11.966	67.558	Home furnishings	7.874	16.878
Confectionery	13.018	50.358	Tobacco	9.627	9.824
Beverages, soft drinks	12.424	45.950			

[1] Rate of return is defined as net income plus fixed charges divided by total capitalization.
[2] The variance is the simple average of unweighted intraindustry variances for each year of the period, 1950-65.

Source: "Underlying Data for Study" by Conrad and Plotkin, "Risk and Return in American Industry."

TABLE 1B.—RATES OF RETURN AND INTRAINDUSTRY VARIANCE IN RATE OF RETURN FOR ADJUSTED SAMPLE CONTAINING 20 CONSUMER GOODS INDUSTRIES, 1950-65

Industry	Average rate of return 1950-65 [1]	Intra-industry variance in rate of return [2]	Industry	Average rate of return 1950-65 [1]	Intra-industry variance in rate of return [2]
Automobile	11.129	168.889	Shoes	9.528	26.143
Cosmetics	17.852	101.583	Beverages, distillers	9.057	25.591
Drugs	17.998	90.827	Food, packaged foods	12.481	23.878
Radio-TV manufacturers	13.721	90.226	Textile apparel manufacturers	10.655	23.115
Watches	7.335	70.392	Food, canned foods	7.215	18.004
Beverages, brewers	11.966	67.558	Home furnishings	7.874	16.824
Confectionery	13.018	50.358	Food, meatpackers	5.561	12.590
Beverages, soft drinks	12.424	45.950	Tobacco	9.627	9.824
Food, bread and pastries	9.458	32.698	Food, cookies and crackers	10.134	9.112
Tire and rubber	9.914	31.367	Food, dairy products	9.190	2.190

[1] Rate of return is defined as net income plus fixed charges divided by total capitalization.
[2] The variance is the simple average of unweighted intraindustry variances for each year of the period, 1950-65.

Source: "Underlying Data for Study" by Conrad and Plotkin, "Risk and Return in American Industry."