

Economic Analysis of Advertising
BA program, Irkutsk State University
Department of Mathematical Economics

Teaching Period: October, 28 (start) – November, 10 (end)

Instructor: Azamat Kashakbaev
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Lectures (36 hours):

TBA

Office Hours:

TBA

Grading:

Course project – 40%

Final – 60%

Description

Advertising is a prominent feature of economic life. It influences buying decisions of people, market competition and social welfare. Companies spend billions on advertising and media industry is growing annually. Economics has accumulated a comprehensive literature on advertising and now this topic is a part of Theory of Industrial Organization.

The course is an extensive study of the economics of advertising. It offers a review of a research devoted to advertising that has been done in the field of Industrial Organization. The course introduces students to microeconomic analysis of advertising, considers basic economic models and discusses real world observations found in empirical research.

The main objectives of the course: formalization of the economic knowledge on economics of advertising and ability to analyze effects of advertising activity on market performance and social welfare.

The course assumes that students know basic concepts of Microeconomics and Industrial Organization.

Readings:

The course is mainly based on articles that are listed in course outline. For Lectures 1 and 11-14 read principal textbook.

Principal textbook: Bagwell, K. "The Economic Analysis of Advertising." Chapter 28 in *Handbook of Industrial Organization*, 2007, Vol. 3, pp. 1701-1844, M. Armstrong & R. Porter (eds.), Elsevier/North-Holland.

Additional textbook: Belleflamme, Paul & Peitz, Martin, 2010. "Industrial Organization," Cambridge Books, Cambridge University Press, ISBN 9780521681599.

Course Outline

Topic 1: Introduction to Economics of Advertising

Lecture 1 (2h)

Advertising industry: real world observations. Advertising: definitions, functions, meaning. History of advertising. Initial views on advertising. Three main views on advertising.

Topic 2: Views on Advertising

Lecture 2 (2h)

Persuasive view on advertising: Braithwaite, Chamberlin, Robinson, Kaldor.

Readings:

Braithwaite, D. (1928). "The economic effects of advertisement". Economic Journal 38, 16–37.

Chamberlin, E. (1933). The Theory of Monopolistic Competition. Harvard Univ. Press, Cambridge, MA.

Robinson, J. (1933). Economics of Imperfect Competition. MacMillan and Co., London.

Kaldor, N.V. (1950). "The economic aspects of advertising". Review of Economic Studies 18, 1–27.

Lecture 3 (2h)

Informative view on advertising: Ozga, Stigler, Telser, Nelson.

Readings:

Ozga, S.A. (1960). "Imperfect markets through lack of knowledge". Quarterly Journal of Economics 74, 29–52.

Stigler, G.J. (1961). "The economics of information". Journal of Political Economy 69, 213–225.

Telser, L.G. (1964). "Advertising and competition". Journal of Political Economy 72, 537–562.

Telser, L.G. (1968). "Some aspects of the economics of advertising". Journal of Business 41, 166–173.

Telser, L.G. (1969b). "Another look at advertising and concentration". Journal of Industrial Economics 18, 85–94.

Nelson, P. (1970). "Information and consumer behavior". Journal of Political Economy 78, 311–329.

Nelson, P. (1974b). "Advertising as information". Journal of Political Economy 82, 729–754.

Lecture 4 (2h)

Complementary view on advertising: Becker, Stigler, Murphy.

Readings:

Becker, G.S., Murphy, K.M. (1993). "A simple theory of advertising as a good or bad". Quarterly Journal of Economics 108, 942–964.

Stigler, G.J., Becker, G.S. (1977). "De gustibus non est disputandum". American Economic Review 67, 76–90.

Nichols, L.M. (1985). "Advertising and economic welfare". American Economic Review 75, 213–218.

Topic 3. Monopoly Advertising

Lecture 5 (2h)

Dorfman-Stiener Model

Readings:

Dorfman, R., Steiner, P.O. (1954). "Optimal advertising and optimal quality". American Economic Review 44, 826–836.

Topic 4. Advertising and Price

Lecture 6 (2h)

Informative Advertising with Homogeneous Products

Readings:

Butters, G. (1977). "Equilibrium distributions of sales and advertising prices". Review of Economic Studies 44, 465–491.

Lecture 7 (4h)

Informative Advertising with Differentiated Products

Readings:

Grossman, G.M., Shapiro, C. (1984). "Informative advertising with differentiated products". The Review of Economic Studies 51, 63–81.

Lecture 8 (2h)

Persuasive Advertising with Differentiated Products

Readings:

Von der Fehr, N.-H.M., Stevik, K. (1998). "Persuasive advertising and product differentiation". Southern Economic Journal 65, 113–126.

Topic 5. Advertising and Welfare

Lecture 9

Advertising and Welfare (4h)

Readings:

Galbraith, J.K. (1958). The Affluent Society. Houghton-Mifflin, Co., Boston, MA.

Galbraith, J.K. (1967). The New Industrial State. Houghton-Mifflin, Co., Boston, MA.

Packard, V. (1957). Hidden Persuaders. D. McKay Co., New York.

Packard, V. (1969). The Waste Makers. D. McKay Co., New York.

Dixit, A., Norman, V. (1978). "Advertising and welfare". The Bell Journal of Economics 9, 1–17.

Dixit, A., Norman, V., "Advertising and Welfare: Reply," Bell Journal of Economics, Autumn 1979, 10, 728-29.

Fisher, Franklin M. and McGowan, John J., "Advertising and Welfare: Comment," Bell Journal of Economics, Autumn 1979, 10, 726-27.

Topic 6. Advertising and Competition

Lecture 10 (4h)

Effect of Advertising on Competition. Sunk Costs and Market Structure. Econometric Tests of Industries.

Readings:

Bain, J.S. (1956). Barriers to New Competition: Their Character and Consequences in Manufacturing Industries. Harvard Univ. Press, Cambridge, MA.

Comanor, W.S., Wilson, T.A. (1967). "Advertising, market structure and performance". The Review of Economics and Statistics 49, 423–440.

Comanor, W.S., Wilson, T.A. (1974). Advertising and Market Power. Harvard Univ. Press, Cambridge, MA.

Comanor, W.S., Wilson, T.A. (1979). "The effect of advertising on competition: A survey". Journal of Economic Literature 42, 453–476.

Sutton, J. (1974). "Advertising, concentration, and competition". Economic Journal 84, 56–69.

Sutton, J. (1991). Sunk Costs and Market Structure. MIT Press, Cambridge, MA.

Topic 7. Empirical Research on Effects of Advertising

Lecture 11 (2h)

Direct Effect of Advertising: Sales, Brand Loyalty, Scale Economies

Lecture 12 (2h)

Indirect Effect of Advertising: Concentration, Profit, Entry, Price and Quality

Topic 8. New Directions for Research. Course Overview

Lecture 13 (2h)

New Directions and Other Topics

Lecture 14 (2h)

Course Overview

Exam (2h)