

**SPRING 2017**  
**AEM 4550: Economics of Advertising**  
**Prof. Jura Liaukonyte**

**HW2**

**Ground rules for Homework 1-5:**

1. HW is due at the beginning of class on the due date designated for each homework (see course website for the list of dates).
2. You should turn in your homework 100% typed. I realize that for some students handwriting is more convenient or efficient, especially when it comes to writing out math equations. However, you should practice typing math formulas in MS Word or other word processing software of your choice.
3. Include a title page listing your name (or names if it is a group work) and homework number.
4. Please staple your sheets. Both your TA and I will look at each homework, so we don't want to lose any of your sheets.
5. If I have specific instructions or rules relating to any individual parts within homework assignments, I will list them there.

**Ground rules for HW2:**

1. HW 2 is due on Thursday **February 23<sup>rd</sup>** at the beginning of class
2. HW 2 is group work. Please work in groups of 4.

**PART I**

*Objective: to categorize TV commercials by their types and by types of products advertised as well as interpret the findings, bearing in mind the economics of advertising.*

Watch one continuous hour (preferably prime time – 8-11pm) of TV (best way to do it is to DVR an hour long program). Write down: a) the program, b) the network (or cable channel), c) the time of the broadcast, d) the total number of ad minutes, e) and the number of tune-ins/promos (see below for definition). Answer the following questions:

**A. Commercials.**

Fill the following table: number of rows = number of commercials.

<b>Ad Number</b>	<b>Advertised Product (see Q1)</b>	<b>Industry (see Q2)</b>	<b>Product Type (see Q3)</b>	<b>Ad Type (see Q4)</b>	<b>Ad length (see Q5)</b>	<b>Celebrity? Yes/No (see Q5)</b>
1						
2						
...						

1. What was the advertised product/service (brand and/or model)?
2. What industry does the product/service fall into (e.g. automobile, laundry detergents, pet food, etc.)?
3. Would you classify the advertised product as a search, experience or credence good?
4. From the types of advertising that we discussed in class, how would you classify each of the ads (Persuasive, Complementary or Informative)?
5. What was the length of the ad (usually they are 15 or 30 seconds, but sometimes there are exceptions).
6. Did the ad have a celebrity in it?

**B. Summary:**

Fill the table below summarizing *the number of ads* falling under each of the advertising categories (question 3) and under different product types (question 4). Which types of ads are mostly correlated with which types of products? Briefly explain your findings.

Number of Ads that were*:		Number of ads of**:	
Persuasive		Search goods	
Complementary		Experience goods	
Informative		Credence goods	
TOTAL:		TOTAL:	

\* Note: Categorizing the types of ads can be very subjective. As long as you are consistent with your methodology across all the cases and you can explain your reasoning, you are fine.

\*\* Remember that this classification is usually used for the attributes of products advertised, and each product will have a combination of all or some of these characteristics. However, it is usually easy to judge what types of attributes are dominant: e.g., if search attributes are dominant, then classify that product as a search good.

**C. Observations/Explanations:**

1. Explain how celebrity involvement might affect the demand for the advertised product.
2. If you see any interesting patterns in your completed table, briefly discuss them.

**D. Tune-ins/Promos**

Tune-in/Promo is an advertisement for a television program on the same or a different channel. These are a form of advertising with an opportunity cost of forgone advertising minutes.

1. How many tune-ins were there for each unique program advertised?
2. Was any program advertised more than once?
3. When were the other programs to be aired (time and day of the week)?
4. How similar in style to the current program were the other programs advertised?
5. From the types of advertising that we discussed in class, how would you classify the tune-ins?
6. Considering that tune-ins are essentially forgone advertising income, what is the rationale of airing them?

**E. (Extra Credit).** Watch **the same** show on Hulu. Record and summarize the ads like in parts A and B. Comment on the differences and similarities of ads between the same show on Hulu and on regular TV.

## PART II

Daniel A. Ackerberg (2001) "*Distinguishing Informative and Prestige Effects of Advertising\**" (posted on the course website).

\* Note that author uses "Prestige" as a synonym to our discussed "Complementary view of advertising".

Read the non-technical sections of this academic paper (you can skip sections 4 and 5) and answer in your own words the questions listed below. Your answers need to be concise and to the point.

1. What are the concrete question(s) studied in this paper?
2. How does author use the types of consumers (experienced vs. non-experienced) to identify the actual effects of advertising (informative, prestige)?
3. What are some of the examples of search and experience characteristics in the advertising for yogurt? Why is this distinction (experience vs. search) important?
4. What is the bottom line of the paper?

## PART III.

Write a blog post. Blog assignment guidelines:

<http://courses.cit.cornell.edu/jl2545/4550/blogguide4550.htm>

Also check the blog website [www.overtcollusion.com](http://www.overtcollusion.com) to see examples of good blog posts.

IMPORTANT: You have to submit your blog post in two ways:

- 1) as part of your typed and printed HW2 and
- 2) emailed to your TA [mfm88@cornell.edu](mailto:mfm88@cornell.edu). Please make sure that the emailed post contains the names of your group members.

Please pay attention to the fact that every submitted blog post should entail some hyperlinks and most really good posts have pictures or embedded videos.

- Learn how to insert a hyperlink in MS Word [here](#).
- Learn how to insert a picture in MS Word [here](#).
- Since I will be posting the selected blog posts on [www.overtcollusion.com](http://www.overtcollusion.com) and there is no easy way to embed a video in MS Word, just provide a link to the video that you would like embedded, should your post be selected to be published.

Potential topics of choice for this HW assignment:

1. Product Differentiation: perceived or real
2. Advertising and Product differentiation
3. Product Placement
4. Persuasive or complementary (prestige) effects of advertising
5. Informative advertising
6. Advertising and types of attributes (products): search, credence, experience
7. Other topic that relates to issues we discussed in class.
8. In case you are unsure if your selected topic fits, email me and we will discuss!