

Syllabus

AEM 4550: ECONOMICS OF ADVERTISING

Cornell University
Spring 2017

Lecture information

Professor: Jura Liaukonyte

Time and Location: Tuesday and Thursday, 1:25 – 2:40 PM (WARREN 150)

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Office: WARREN 340B

Office Hours: Tuesday 4:30-5:30 PM and by appointment

Teaching Assistant: Matt McGranaghan

Email: mfm88@cornell.edu

Office: WARREN 372

Office Hours: Wednesday 10:30-11:30 AM and by appointment

Class Webpage: <http://faculty.cit.cornell.edu/jl2545/teaching.htm>

Class Blog: www.overtcollusion.com

HBS cases website: (see class website)

Course Description

"Half of my advertising is useless. I just do not know which half." - Lord Leverhulme

This is an analytical and quantitative course focusing on advertising strategy. In this course, we will analyze how advertising affects product demand and competitive responses from rival products. Why and how do consumers respond to advertising? What is their sensitivity to advertising expenditures, if any? Can we measure that sensitivity? What role does advertising play in (spurious?) product differentiation? Does advertising change preferences, consumers' willingness to pay or both? And, most importantly, why should we care? Why do distilled and blended liquor, real estate agents, motion pictures and soap and detergent producers have the highest advertising expenditure-to-sales ratios (at 10-15%); whereas convenience stores, dairy products and tire producers have the lowest (all under 2%). These are some of the questions that will be discussed and answered during this course.

The lectures will be a mixture of theoretical advertising strategy analysis, problem-solving, Harvard Business Review cases that put theoretical findings into practical perspective, and overviews of the recent empirical research in the field of advertising.

Students will be expected to contribute to a class blog on a regular basis where they will analyze advertising strategies of selected products or services employing the material covered in class.

Required Texts

- **Chapter 28** "[The Economic Analysis of Advertising](#)", by Kyle Bagwell in [Handbook of Industrial Organization Volume 3](#), 2007, Pages 1701-1844. A free electronic pdf version is available through the Cornell Library by clicking on the above links (must be on Cornell campus to access).
- **Harvard Business cases** available through the website that was specifically set up for this course (check the course website for link). Please register with the site and purchase the assigned material.
- **Other assigned readings** (all with free online access), which will be posted under the relevant sections of the course outline on the main course website.

Prerequisites

Managerial Economics (Intermediate Microeconomics), Statistics. Please talk to me, if you have not satisfied these prerequisites.

Homework and Exams

There will be 5 homework assignments, two exams, a final group project and a mini-exam. The point breakdown towards your final grade is as follows:

Class Participation	5%
Homework Assignments	10%
Exam 1	30%
Exam 2	30%
Mini-Exam	5%
Final Group Research Paper and Presentation	20%

- **Exams.** If you cannot take an exam during the scheduled time, you must let me know in advance so that a makeup can be arranged. Once an exam has been given, no arrangements will be made for a makeup. If you will be missing an exam, you will need to provide a note from an appropriate party substantiating your absence.
- **Homework assignments.** Homework will be posted on the course website about a week in advance of its due date (on average, once in 2 weeks). All homework will consist of 3 parts: (1) Analytical problems; (2) Question(s) about assigned academic paper and/or Harvard Business case; (3) A Blog Post (see below). Problem sets are due at the beginning of class. You can work in groups consisting of 4 students. You will need to work on the first homework individually.
- **Blog Posts.** Your study group will be required to contribute to a class blog about current advertising topics relevant to the material learned at the time. The requirements of such blog posts will be posted on the course website.
- **Final Group Paper and Presentation.** The final project will consist of a classroom presentation and an accompanying paper (12-15 pages, double-spaced, plus figures, tables, references, etc.). Project grades will be based on your group's presentation and paper, and on your own participation in the group's work, in part determined by other group members. Details about the chosen topic appropriateness will be announced later. You will need to submit a one-page outline about the chosen topic.
- **Attendance.** If you are absent from class, you will need to fill out an online excuse form for each missed class within a week of missing it. You can write the excuse yourself. Acceptable excuses include, but are not limited to: job interviews, being sick, religious holidays, family emergencies, etc. You may miss 3 classes throughout the semester without any written excuse. If you miss more than 3 classes for which you do not

provide an excuse online, each such absence will result in a 3 point deduction from your final score. To summarize, in order to not receive any penalties you can miss 3 classes without any excuse; you can miss more, if you have an excuse. **Please do not email me** about the reasons why you missed a class. Please consult with me if this attendance policy is unclear to you.

- **Being late to class.** When students are late to class it is very disruptive not only for the professor but also for other students. You probably think you will be invisible and that the professor will not notice you being late. In reality, I have a good memory of who is attending classes and especially who is consistently late. So please, **do avoid being late at all costs**. If you arrive more than 10 minutes late, you will not be given credit for attendance at that class. Note that this doesn't imply that you should come to class 1-9 minutes late.
- **Laptops and smartphones.** This class has a closed screen policy. This includes not checking your smartphone throughout the lectures and keeping the phones on silent.

Important Dates and Tentative Course Schedule

Almost certainly some dates will change. For the latest information, look on the course website, where you will also find detailed lecture notes and assigned readings. If certain dates in syllabus and the course website do not match, assume that the dates on the course website are correct.

Important dates (check the course website for the most recent updates!)

Thu, March 2	Exam 1
Thu, March 30	Exam 2
Thu, April 13	Project topic and , outline,
Thu, May 9	Mini-Exam, Final paper due

Tentative Course schedule (check the course website for the most recent updates!)

Lecture	Topic
Lecture 1	Introduction, Syllabus
Lecture 2, 3	Review of Microeconomic principles applicable to Advertising Analysis: <ul style="list-style-type: none"> • Price, advertising elasticities • Product differentiation • Dorfman-Steiner Condition
Lecture 4, 5, 6	Product attribute taxonomy: <ul style="list-style-type: none"> • Search, Experience, Credence Views on advertising: <ul style="list-style-type: none"> • The persuasive view • The informative view • The complementary view • Combative advertising • Memory jamming view

Lecture 7, Lecture 8	The direct effects of advertising: <ul style="list-style-type: none"> • Sales • Brand loyalty and market-share stability • Advertising scale economies • TV advertising industry and CPM • Ad Costs and Scheduling
Lecture 9	Economics of Online Advertising: <ul style="list-style-type: none"> • Online Advertising Methods • Search advertising pricing • Cost Per Click vs. Cost Per Action • Google Advertising
Lecture 10	Brand Equity <ul style="list-style-type: none"> • Importance of Brand Equity • Measuring Brand Equity
Lecture 11, Lecture 12, Lecture 13, Lecture 14, Lecture 15	New directions and other topics: <ul style="list-style-type: none"> • Advertising Content • Economics of Attention • Comparative Advertising • DTC Advertising • Advertising Regulation • Future of advertising
Lecture 16, 17, 18	Presentation Prep and Training: <ul style="list-style-type: none"> • Presentation guidelines • Cornell Databases • Excel Tutorial • Data Analysis
Lectures 19-25	Student Presentations

Questions for the first class

Are you officially enrolled in this class as of right now? _____

Name: _____

How would you like me to call you? _____

Write something interesting about yourself (e.g. extracurricular activities, hobbies, talents, sports, etc.)

What do you expect to learn from this course? _____

What are your fears about this course? _____

Question to me: