

AEM 4550: Economics of Advertising
Professor: Jura Liaukonyte
Exam 1 – March 2, 1:25 PM, in class

Reading

- Lecture Notes: Lectures 2 through 9
 - Note that some lecture notes are based on Bagwell's Chapter 28 "The Economic Analysis of Advertising" (up to section 3.2)
- PBS documentary "Persuaders"
- Articles:
 - D. Akerberg "Empirically Distinguishing Informative and Prestige Effects of Advertising"
 - *The Atlantic* Article "Have You Ever Tried To Sell a Diamond?"

Some highlighted topics

Beyond the problems solved and discussed in HW1 and HW2 the following list should serve as a reminder of what we covered in lectures 2 through 9.

Know how to calculate various elasticities:

- Demand
- Supply
- Income
- Cross price
- Advertising

Know the economics behind the numbers and be able to interpret them

- Determinants of elasticities
- Lerner Index and other Measures of Market Concentration
- Relationship between Advertising and Market structure
- Dorfman Steiner Condition
- Optimal advertising levels
- Advertising to sales ratios – why different in different industries
- Product differentiation and advertising

Taxonomy of product attributes

- Search
- Experience
- Credence

Taxonomy of advertising types

- Persuasive
- Complimentary
- Informative
 - Direct
 - Indirect (Signaling) and 3 reasons
- Memory Jamming

Understand the foundation of these types of ads and understand how they affect demand is more important than knowing exact definitions

Other topics:

- Combative advertising and prisoner's dilemma
- Sales response models
- Empirical findings of direct effect of advertising on sales
- Advertising Goodwill
- Overall Industry demand
- Relationship between brand loyalty and advertising

Based on what we cover in the last lecture:

Advertising Costs – understand each of the following terms

- Coverage
- Reach/cumulative reach
- Frequency
- CPM/CPM-TI
- GRP

3 ways to schedule the same amount of ads

3 stages of Network ad time market

Format of the exam

One thing that you might have already noticed with HW1 and HW2 is that I tend to ask questions that test your analytical thinking. As an example, while it is important to know how to calculate the elasticities, it is more important to understand what is behind those numbers and why we care about those numbers. You get the point.

The format of the exam will be the following:

- some questions (with subparts) where you will need to solve for something and explain results
- 1 question about a case, documentary or academic article
- some (with subparts) questions testing your understanding of the rest of the material

Remember that I will formulate questions in such a way that there is only one correct answer