

## CONCEPT: ADVERTISING

- Monopolistically competitive firms use advertising to \_\_\_\_\_ their product and create \_\_\_\_\_
  - Advertising allows firms to:
    - Convey prices
    - Inform consumers of new products
    - Tell consumers where you are located
  - Critics of advertising argue that advertisements are generally \_\_\_\_\_ rather than informational
    - Example: Corona Beer and the Beach
- **Brand names** help firms differentiate their product. They also help consumers ensure the \_\_\_\_\_ of the product
  - Firms have an incentive to maintain the quality of their product
- Advertising also acts as a **signal** of \_\_\_\_\_
  - Consumers rationally think, “if they are willing to spend this much on advertising, the product must be good!”
  - Advertising causes consumers to \_\_\_\_\_ the product
    - If it is good, they will keep buying
    - If it is bad, they will not buy again

**PRACTICE:** If advertising makes consumers more loyal to particular brands, it could \_\_\_\_\_ the elasticity of demand and \_\_\_\_\_ the markup of price over marginal cost.

- a) Increase, increase
- b) Increase, decrease
- c) Decrease, increase
- d) Decrease, decrease