

The Analysis of Advertising Effects in Different Competition Behavior and Cost Type

陳建中、楊維娟

E-mail: 9314252@mail.dyu.edu.tw

ABSTRACT

According to the Quantity and the Price competition patterns, the thesis explores the effects and impacts of the different advertising strategies which are based on fixed and changing advertising expenditures engaged by different firms. For the heterogeneous double monopoly model, we assume that the demand function is in fixed elastic form. Under the price competition, the price-making behavior is independently decided by firms. Moreover, the advertisement cost can be passed to and absorbed by the consumers. For advertising strategy, if the expenditure of advertisement had been considered as the fixed cost, firms will speculate their counterparts' decisions. However, if the expenditure of advertisement had been considered as the changing cost, each firm will make its own advertising rate decision. Also, the advertising rate will be higher when the price is higher. When there is a competition occurred on quantity, firms will speculate their counterparts' strategies in order to engage the right decision. Also, those strategies are in the substitution relations. While the advertising cost is considered as a fixed cost of expenditure, firms engage the strategies based on considering their counterparts' decision. Nevertheless, the relationships among those selected advertising strategies will rely on the elastic size. And the those strategies could be supplemental or the substitutive to each other. On the other side, while the advertising cost is considered as a changing cost of expenditure, the decision-make of advertising strategies of different firms will be independent and finally affect each other through the diverse quantity and advertising rate. Comparing the profit of firms, firms will gain lower net profit if they engaging advertising strategies whether they are in mature market or whether there are competitions between quantity and price and whether the advertising cost is considered as fixed or change essence. Unless the advertising behavior of firms will not bring negative influence, the firms will be trapped into the decision model as the prisoner's dilemma while they engage the advertising strategies.

Keywords : competition patter ; cost structure ; advertising strategy

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