The dissertation studies two topics in economics of advertising in the framework of Industrial Organization. Particularly, it considers a role of advertising in the markets with network externalities in consumption and advertising as a strategic response of incumbent to new entry.

The first chapter investigates the incentives for a monopolistic firm producing a good with network externalities to advertise when consumers face imperfect information and therefore must search to realize their actual willingness to pay for this good. A firm may disclose market information through advertising if it finds it beneficial. The results suggest that advertising is more likely in the case of a negative network effect and less likely with a positive network effect. When a monopolist faces a strong network externality, it chooses to support a maximum possible network and charge a price equal to the value of the externality. Finally, depending on the value of the search cost and the type of the network externality, a monopolist may use different advertising content: no information, price information only, product characteristics or both price and product characteristics. Specifically, if all consumers have the same search cost, as the search cost grows the firm must include more information in the advertising content. While, as the network externality goes from negative to positive, the firm reduces the content. In contrast, if consumers differ in their search costs, the firm tends to provide more information as the externality goes from negative to positive.

The second chapter considers an advertising game in the market with network externalities and consumers unable to observe prices. Two oligopolists decide on their advertising strategies in the beginning of the game and then compete in prices. Upon observing the advertising decisions of firms, consumers search if needed. Negative consumption externality lowers a minimum threshold level of search costs and increases profits of the advertising firm. Hence, at least one firm must advertise for a snob effect. Weak bandwagon effect and snob effect lead to the equilibria with interior solutions where both firms have positive market shares. When consumption externality exceeds a degree of product differentiation, demand function of each firm becomes upward-slopping. The externality dominates any strategic and price effects and therefore higher price is necessarily associated with a greater market share. Finally, the only equilibria with a strong bandwagon effect are those where only one firm supplies to an entire market.

The third chapter is motivated by empirical studies on advertising outlays reporting that incumbent firms change their advertising strategies in response to a new entry. While some incumbents reduce their advertising expenditures, others increase them in comparison to the pre-entry period. Existing literature on strategic advertising in entry games is mostly focused on entry deterrence, meanwhile no theoretical foundation is found in this literature to explain what determines a change in the advertising strategies in the case of entry accommodation. The third chapter considers four types of advertising and builds a model that examines how accommodating incumbents decide on advertising. The paper also provides results on how advertising is related to the size of the entry. Particularly, informative advertising and advertising enhancing product differentiation allow greater entry, while complementary and business-stealing advertising result in fewer entries since they reduce residual demand for potential entrants. Depending on whether post-entry competition variables are strategic substitutes or strategic complements, incumbent firms may increase or reduce their advertising outlays in response to new entries.