

Report on “Essays on Economics of Advertising”

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The thesis is about the theory of advertising and presents an introduction and three chapters. After reading it, my personal judgment is that it satisfies formal and content requirements for a PhD thesis in economics, in spite of the fact that some improvements would be welcome and I will suggest some below with special reference to the introduction and the substance of Chapter 3. The latter is indeed a weaker chapter, but also one that can be considerably improved and turned into an interesting work.

Overall I do recommend the dissertation for a defense.

The introductions to the thesis and to the chapters provide some limited discussion on the literature. While the core of a dissertation is its advanced treatment, I would frankly find it useful to have a self-contained review of what is really important in the literature on advertising to emphasize achievements and gaps of the literature and put in perspective the essays of the dissertation. This is rarely done in modern dissertations, and this is what makes them a pure collection of articles with a life in their own rather than a self-contained monograph that could be potentially published. I would welcome, but not strictly requires, a deeper introduction to the literature. The review of the literature is potentially sufficient for standalone papers (though the author appears to ignore many relevant citations closely related to the content of each chapter), but not for a thesis in my opinion.

The first chapter provides a theoretical analysis of advertising by a monopolistic firm active in a market with network externalities (of a positive or negative nature, though this terminology is often abused in the text, when referring to the externality becoming negative..),

and its focus is on informative advertising in the presence of search by consumers (with either homogeneous or heterogeneous consumers). The analysis is well conducted, though the motivation is limited and could be expanded. The results are of a certain interest, and I don't have particular request on them for further investigations. As of now the paper derived from this chapter could be published in a lower level field journal.

The second chapter provides a follow up of the first one, moving to the analysis of a duopoly, always characterized by network externalities that mainly relate to "fashion" or "snobbism" (so again positive or negative network effects). The results are of a certain interest and they are original, which is sufficient for a PhD thesis. I have no reason to request further investigations. Also in this case, they could be published in a field journal.

The third chapter is about the role of advertising in basic models of imperfect competition. In particular, the author considers various forms of advertising by one firm and tries to fit them in models of Hotelling duopoly and in Cournot models with linear demand and either an exogenous or endogenous number of firms. While the idea is not incredibly original, and this could be regarded as the weaker chapter of the thesis, I nevertheless consider this a useful enterprise for the literature, and the computations seem, as far as I could check (only for a sample of cases) correct. I find it nice to model alternative forms of advertising in alternative and simple ways and to draw conclusions based on that. Unfortunately the author just considers two unrelated models, the Hotelling and Cournot models, without even justifying this. This implies that the big picture is lost and one remains just with a handful of examples.

I recommend the author to revise this chapter and the derived paper in the following way, which could make the chapter publishable in a mid-range journal (while it is not as it is). First, one should have a general model, where n firms can compete in a rather general way (possibly with a general profit function depending on their strategies, that could be either prices or quantities). In such a model, one firm can undertake an advertising decision which affects profitability in different ways. Finally the number of firms could be either exogenous or endogenous also in this general model. This would allow the author to derive general results, that have the current examples as particular cases, and learn something more than the fragmentary current results.

Notice that the mentioned model has as particular cases the classic duopolies à la Fudenberg-Tirole when advertising can affect profits of the two firms in any way, and more recent models with a leader committing to a strategy and endogenous entry when advertising can affect only the profitability of the leader and the number of entrants is endogenized.

Incidentally, the taxonomy in case of exogenous and endogenous entry derives from these works. However, the case where advertising affects both the profits of the leader and of the other firms is somewhat unexplored under endogenous entry and this case could be better emphasized, giving a more solid originality to the chapter. Such a revised paper could, at least in my opinion, be published in a better journal than the earlier chapters, possibly even a generalist journal. Overall, this would also make the dissertation more solid because it would contain three fully publishable papers.

Summing up, my personal judgment is that the dissertation satisfies formal and content requirements for a PhD thesis in economics, especially after amending it as suggested. Overall I do recommend the dissertation for a defense.

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