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Economic Evaluation of Commodity Promotion Programs in the Current Legal and Political Environment

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Advertising and Consumer Welfare

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ABSTRACT. Controversy has surrounded the welfare effects of advertising, mainly concerning consumer welfare effects. Unfortunately, the measures of consumer welfare effects in most studies have been ad hoc and incorrect. The consumer welfare consequences of advertising can be measured consistently and accurately when consumer demand equations are derived from an expenditure function. This is illustrated using the Almost Ideal Demand System, which is popular in econometric estimation of food demand systems. An empirical application uses data on Australian meat consumption to evaluate generic advertising of meats. The results from using a theoretically correct money-metric measure of consumer welfare effects, taking account of cross-commodity effects of advertising and price changes, are compared with ad hoc approaches previous studies have proposed. In addition, the consumer welfare measures are combined with measures of producer benefits in order to compute private and social returns.

Editor's note: The authors were still working on "Advertising and Consumer Welfare" when this book went to press. If you are interested in finding out more on the authors' model, methodology, results, etc., please contact:

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