

# Misleading Advertising of the Horizontally Differentiated Products\*

Keisuke Hattori<sup>†</sup> and Keisaku Higashida<sup>‡</sup>

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## Abstract

In this paper, we build a model of strategic misleading advertising in duopolistic markets with horizontal product differentiation and advertising externality between firms. We investigate the effects of various types of regulations of misinformation on the market competition, behavior of firms, and social welfare. The policies for prohibiting of misleading advertising, educating consumers, and taxing production do not necessarily improve social welfare, which depends on the degrees of product differentiation and the magnitude of advertising costs. Taxing misleading advertising and prohibiting cooperative advertising between firms, if possible, necessarily improve welfare. The model is extended by including two types of heterogeneity; heterogeneous consumers and heterogeneous production costs between firms.

**Keywords** Misinformation; Advertising; Regulation; Duopoly; Product Differentiation;

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<sup>†</sup>Faculty of Economics, Osaka University of Economics, 2-2-8, Osumi, Higashiyodogawa-ku, Osaka 533-8533, Japan. Email: [hattori@osaka-ue.ac.jp](mailto:hattori@osaka-ue.ac.jp)

<sup>‡</sup>School of Economics, Kwansei Gakuin University, 1-155, Ichiban-cho, Uegahara, Nishinomiya, Hyogo 662-8501, Japan. Email: [keisaku@kwansei.ac.jp](mailto:keisaku@kwansei.ac.jp)