

Advertising and Tempting Bads

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Abstract

Our study considers that whether a commodity is a good or a bad depends on whether it advertisements or not. This study supplies a simple exercise to show that intrinsic bads are produced in equilibrium due to the force of advertisements. Using the temptation model, we present the necessary and sufficient condition that guarantees that (i) the socially optimal quantities of intrinsic bads and of advertisement are zero, but that (ii) intrinsic bads are produced in market equilibrium. Government can lead the market equilibrium allocation to the social optimum by using proper taxation. However, free competition cannot lead the market equilibrium allocation to the social optimum.

Keywords: self-control, tempting commodity, intrinsic bads. advertisement.

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