

Advertising, Quality, and Willingness-to-Pay: Experimental Examination of Signaling Theory

Hsiao-Chien Tsui

Abstract

This paper conducts an experiment using questionnaires through a closed-ended double-bounded dichotomous choice of contingent valuation method to measure and compare the consumers' willingness-to-pay (WTP) for a fictitious market of cell phones of different qualities before and after advertising. The analytical results show regardless of product quality, advertising can effectively influence the consumers' awareness of product quality and enhance their WTP. Moreover, with different qualities, advertising influences consumers' WTP differently. With an absolute price, the advertising effect of high-quality products is better; however, after advertising, the increase in the consumers' WTP for low-quality products is more than for high-quality products. Thus, with regard to the increase in WTP, the advertising effect of low-quality products is better than for high-quality products.

Keywords: advertising effect, quality, willingness-to-pay, contingent valuation method

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