Note: given the fact that you’re ‘obliged’ to answer the weekly questions, try to profit the most from the task:

- Start by reading the slides (**twice**).

- Then, **leave the notes aside** and answer the questions **(I do not value answers that are transcriptions of the lecture notes).** If you do this, you’ll have to study much less before for the tests.

The answers should be handed in at the next lecture at ISEG. They should be manuscript (not type written).

Please write **WEEK 9 in bold** at the beginning of your answers.

**Week 9**

**L17: Publicity**

**1.** a) Which is the share of K,L devoted in the US to the advertisement of products and not used in actual production?

b) Any similarity between publicity and a rent-seeking activity? Explain.

**2.** Explain the various types and sub-types of publicity that exist.

**3.** a) Explain the effect of ads that show the prices of products on their average prices.

b) What should the gov do about it?

**4.** What are the three features of an imperfectly competitive market?

**5.** Look at the graph of the lecture, and consider the d curve **before** persuasive publicity. How can we tell that an increase in the price from 5€ to 5.2€ will lower profits?

**6.** Which are the two differences between d curve after persuasive publicity and the d curve before it?

**7.** Give the two reasons why under the new d curve – in contrast with under the initial d curve - an increase in the price from 5€ to 5.2€ may raise profits.

**8.** What are the negative and positive effects of persuasive publicity on consumers?

**9.** Explain why publicity that informs about the features of products has the same effect on the d curve than persuasive publicity.

**10.** What are the negative and positive effects on consumers of publicity that informs about the features of products?

**11.** Publicity increase profits in two ways. Which ones?

**12.** a) What does a price-elasticity of demand = -0.8 mean?

b) What does a publicity-elasticity of demand = +0.8 mean?

**13.** a) Why is the price low if the price-elasticity of demand is high?

b) Why is the price high if the price-elasticity of demand is low?

**14.** Why is the incentive to make publicity low if the price-elasticity of demand is high?

**15.** Why is the incentive to make publicity high if the price-elasticity of demand is low?

**16.** Why is the incentive to make publicity low if the publicity-elasticity of demand is high?

**17.** Why is the incentive to make publicity high if the publicity-elasticity of demand is low?

**18.** Why does L’Óreal spend so much on publicity?

**L18: Vertical integration and vertical restrictions**

**Vertical integration:**

**19.**What is a **fully** vertically integrated firm?

**20.** In which case should a company produce some of its inputs instead of buying them from other firms?

**21.** Why does a supermarket chain have more incentives to contract a firm to make the cleaning of its installations than a small grocer’s shop?

**22.** How can a multinational firm with different stages of its production chain located in different countries reduce the total amount of taxes it pays?

**23.** Explain how Google was able to dramatically reduce the amount of taxes it has paid over the past 20 years.

24. Explain how the major world countries are going to end fiscal havens.

25. Explain an alternative way that could lead to the same result.

**Vertical restrictions:**

**26.** What is a vertical restriction?

27. If a retailer facing little nearby competition raises the margin it charges for a manufactured product, it will raise its own profits but reduce those of the manufacturer. Why this difference?

**28.** Why do restaurants in touristic places may have the incentive to have food with bad quality?

28. Why that would be *even more* the case of a restaurant operating under the McDonald’s name but without vertical restrictions?

30. What is franchising?

31. What is the advantage of the fact that all McDonald’s restaurants are more or less equal to each other – the advantage for McDonald’s and for the franchisees?

34. Why are franchisees willing to pay a lot just to be allowed to operate under McDonald’s name?

35. Why isn’t that payment restricted to a fixed upfront commission?

36. a) Why may McDonald’s earn more profits from franchised restaurants than from its own restaurants?

b) “As a result of that, franchisees earn less than the managers of the restaurants owned by McDonald’s.” Do you agree? Explain.

37. If VW does not impose any vertical restriction on the entrepreneurs that sell its cars what will happen to VW’s sales? Why?

38. a) What is the effect of an exclusive territory on the incentives of a VW stand to have a good showroom and sales assistants? Explain.

b) Do consumers benefit from that? Explain.

39. Why may some restaurants and cafés sell ice-creams of Olá but not those of other brands?