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National Standards and Benchmarks (see page 13)

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Advertising:
Dollars and Decisions

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Introduction

Having dollars in your pocket is one thing; keeping them there is another. With so many businesses selling goods and services, there’s a lot of competition in the marketplace for the money in your pocket. In fact, consumers are bombarded with as many as 4,000 to 10,000 advertisements each day! This advertising is designed to increase or create demand for products by influencing consumers’ choices about spending. Through persuasion, some dollars in your pocket are spent because of advertising.

Advertising Benefits

Advertising benefits both buyers and sellers. It provides information to consumers about new products available and the advantages of buying and using the advertised goods or services. It’s also a low-cost way for consumers to get information; they simply have to view the information when it is placed in front of them. Consumers often become aware of a product through advertising, and the introduction of a new product might lead to lower prices of like products—so consumers benefit. For example, consumers might learn about Pizza Express through advertisements—and Pizza Express might offer a great price. Other pizza providers might feel they need to offer lower prices to compete with Pizza Express. Consumers benefit through lower prices for pizzas. Additionally, the price of newspapers, magazines, television, radio, the Internet, and other media is lower to consumers because advertising finances much of the cost of these services. And finally, advertising benefits businesses as well by increasing the demand for goods and services, thus increasing sales.

The Purpose of Advertising

Advertisements, or ads, can serve different purposes. They may be designed to nurture established brand loyalty or to introduce new brands. Using
slogans, logos, jingles, unique packaging, and designs in advertising helps create the “brand personality” and familiarity with products and influence consumer choices. For example, even before they can read, most children recognize the McDonald’s golden arches, influencing their taste and preference for McDonald’s and possibly increasing demand for McDonald’s products. Advertising can strengthen the loyalty of current users and tries to send a persuasive message to other consumers to switch brands.

Types of Advertising

Ads are used to deliver a message to consumers. Some advertisements are only in print format with or without illustrations. Others are commercials, originally called commercial messages, and may include audio only or audio and visuals. These are usually between 10 and 60 seconds in length. Very lengthy advertisements are called infomercials. An infomercial may be 30 minutes long and demonstrate a product. Such demonstrations usually show how the product can benefit consumers and offer a special “buy now” deal to entice consumers to purchase the product right away.

Advertising as a Business

Advertising is a fast-paced, growing, and ever-changing business. Given the massive number of advertisements, it is an industry itself. The American Advertising Federation (AAF), established in 1905, recognizes outstanding advertising work and offers guidance in building and advancing careers in advertising. The AAF even offers job opportunities to assist in developing a career in advertising.

People design and create ads that will influence consumer spending. Paying attention to details, color, words, design, and appearance, as well as the media type(s) to be used, advertising agencies go to great lengths to present products most favorably. Advertising researchers collect responses from consumer test groups to pretest advertisements and fine-tune them down to the smallest details before they are released.

Advertising Timeline

In the United States, Benjamin Franklin is honored for advancing advertising in the mid-1700s. At a time when advertising was almost nonexistent, Franklin was the publisher of the Pennsylvania Gazette. Working to become more profitable, he devised a way to lower the paper’s cost by selling newspaper ads. The idea was not successful at first because Franklin could not convince other businesses to buy ads. Trying a different approach, he began to advertise one of his own inventions, the Franklin stove. When sales of the stove boomed, other businesses took notice and began to buy ads in the Pennsylvania Gazette. Franklin was able to produce his paper at a lower cost and sell his newspaper at a lower price. Advertising was a win-win situation for Franklin and his advertisers. Advertising appealed to people’s tastes and preferences and increased the demand for his newspaper. He soon moved ahead of his competition and earned more profit.

With a place in the Advertising Hall of Fame, Franklin is referred to as “the original voice of America, selling products and services, community programs, democracy and America itself through written and spoken word.”

By the late 1800s, long and wordy advertisements began to fade as advertisements advanced to include catchy phrases or slogans. The idea was to use a single phrase to make the product memorable—for example, Ivory soap was marketed by Proctor and Gamble as the “soap that floats.”

Radio broadcasting began on a large scale in the 1920s. The Golden Age of Radio began around 1925, and in 1926 the National Broadcasting Company (NBC) made plans for radios to be in 26 million American homes. This Golden Age of Radio enhanced advertising and moved it from the written word to other methods of communication: music, jingles, and the spoken word.

Television opened a whole new world of advertising, and its growth affected the print venue (Figure 1). In 1936, there were only 200 television sets in use, but by 1992 there were 201 million televisions in the United States. In 2004, more than 98 percent of American households had a television and the average home had more than two. In 2016, on average, American adults watched about 5 hours of television per day.

Television offers exposure to a large number of consumers at the same time—and predictably, the networks are filled with commercials. In 2015, the Fox News Channel had the most commercials of all networks overall with almost 17 minutes of each hour devoted to commercials. The CBS television network had almost 14½ minutes, while ABC and NBC had almost 14 minutes per hour.
On average, there are 38 ads airing every minute over national television networks. For these ads, advertisers use research and data to target the “right people” in the most effective way. Some considerations include when to run an ad and the length of the ad. For example, data from 2013 reveal that 125 million people use television on Sunday, which is more than on any other day of the week. In this same year, the number of 15-second ads increased to 44 percent of all ads and were equally effective as longer ads. Changes in the demographics of the population are essential data as well.

Beginning in the 1990s, the Internet and the computer age of global communication began a new era of advertising. In fact, the world’s largest advertiser, Procter & Gamble, has begun shifting more to digital advertising because the company believes online ads are progressively a better investment than TV or print ads.

Today, smartphones and mobile devices are getting their share of the advertising spotlight and the trend is expected to continue. Forecasters predict that by 2019 advertising on mobile devices will reach $160 billion and become the second-largest advertising medium, while television will retain the number one spot. (See Figure 2 for estimated changes in ad spending.)

Advertising Targets
Determining the target audience of an ad and tapping into the interest of a specific group is an important marketing strategy. Targeted audiences change and vary with cultures and time. Some identified groups are children, families, budget-conscious consumers, health-conscious consumers, sports-minded consumers, older or retired consumers, and working consumers. In each case, ads are designed and tailored to address the characteristics of the particular consumer group and influence their choices. The delivery medium is also important in targeting the identified group. For example, ads for beauty products are more effective in a women’s magazine rather than on the radio (see the “Common Advertising Venues” boxed insert).

Advertising Techniques
Some ads are purely informational and provide basic information such as price, size, and quantity. Products have professionally designed and recognizable labels. Sometimes brand labels and the packaging itself can...

### Common Advertising Venues

| Television | Telephone |
| Radio | Mail |
| Billboards | Newspapers |
| Magazines | Internet |
| Email | Mobile devices |
serve as an ad. For example, a tube of toothpaste is not labeled simply “toothpaste” but includes the brand name and some descriptive characteristics such as “New and Improved,” “Fresh Tasting,” “Great Tasting,” “Helps Prevent Cavities,” or “Whitening.” Adding cartoon characters and bright cheerful colors on cereal boxes can influence children’s tastes and preferences, creating greater demand for cereal by children. Depending on the product and targeted audience, most ads use one or a combination of techniques to influence consumer spending and persuade consumers of the value of the product (see the “Common Advertising Techniques” boxed insert). But in all cases, the tastes and preferences of consumers are considered in an effort to affect decisionmaking.

Advertising Pricing

The first official paid television ad in the United States was broadcast in 1941 as a short and simple ad for a Bulova watch. Broadcast before a baseball game in New York, the total cost for the ad was less than $10. This was the beginning of an advertising industry that now generates tens of billions of dollars per year.

Since that time, the cost of advertising has increased dramatically. In 2016, national TV commercials cost, on average, around $8,000 for a 30-second spot. Pricing of advertising depends on factors such as the size of the print ad or length of time for the radio or TV ad. Costs can vary widely by publication or program, depending on the size of the potential audience.

The Super Bowl is an example of incredibly expensive advertising. Since 2010, the Super Bowl has been the most-watched TV broadcast of each year—114 million viewers watched the 2015 Super Bowl. Advertising during this game is a great opportunity to influence the spending of millions of consumers. Interestingly, many people watch the game just to see the commercials (Figure 3). And with the massive number of viewers, the price of advertising continues to increase radically (Figure 4).
30-second commercial for the first Super Bowl in 1967 cost $42,000, and the price increased to over $1 million in 1995. By 2015, the price had risen to $4.5 million and moved higher to $5 million in 2016, which amounted to $166,666 per second.\(^{19}\) For the 2017 Super Bowl, advertisers paid as much as $5.02 million for a 30-second commercial.\(^{20}\)

**Conclusion**

The purpose of advertising has remained constant over time: to create demand for products by influencing consumer tastes and preferences. However, advertising techniques and strategies have changed and will continue to do so. Ben Franklin would surely be amazed with the innovative approaches used today to communicate promotional messages that affect consumer choices and the dramatic growth of the advertising industry.

Mark Twain said, “Many a small thing has been made large by the right kind of advertising.” Finding the “right kind” of advertising present challenges to both advertisers and consumers. Changing technology and demographics force advertisers to change strategies, venues, and messages as they showcase their products. Consequently, the challenge continues for consumers to use the “right kind” of decisionmaking. As a consumer, it is your responsibility to carefully analyze and evaluate ads. That is, if you want to keep more dollars in your pocket. □

**Notes**


7 O’Barr, William M. “A Brief History of Advertising in America.” Advertising & Society Review, 2005, 6(3); [https://muse.jhu.edu/article/193868](https://muse.jhu.edu/article/193868).


After reading the article, complete the following:

1. Explain how the title—“Advertising: Dollars and Decisions”—summarizes the contents of the article.

2. On average, approximately what percentage of one hour of programming is devoted to actual news on the Fox News Channel? Who is the likely primary target audience for the majority of the commercials on this channel?

3. A television guide lists programs and times, but in fact, a substantial part of each time slot is devoted to commercials.
   a. What are some intended consequences of commercials?

   b. How are commercials beneficial to consumers?

   c. Do viewers sometimes actually enjoy commercials? Cite evidence from the article to support your answer.
4. The first affordable automobile, the Ford Model T, was produced and marketed from 1908 to 1927. It was advertised heavily in newspapers. Give reasons why it was not advertised on radio or television as automobiles are today.

5. As the automobile changed the culture of America, so did the Federal-Aid Highway Act of 1956. The act created our interstate highway system, which dramatically increased travel and transportation across the country. Name two venues that likely gained popularity with advertisers as a result of these changes in history and culture. Cite any information in the article to support your answer.

6. Beginning with Super Bowl 2007 and ending with Super Bowl 2016, how much has the revenue from Super Bowl television advertising increased?

7. Beginning with Super Bowl 2007 and ending with Super Bowl 2016, about how much has the average price of a 30-second Super Bowl ad increased? Show your calculations and circle the correct answer. Why are advertisers willing to spend so much money on Super Bowl commercials?

   - Doubled
   - Tripled
   - Quadrupled
   - More than Quadrupled

8. Assume that you have a good or service to sell that is popularly used by high school students. What advertising venue(s) would you choose to most effectively market your product? Explain your answer.
9. Ads often influence consumer perception by using clever ideas in pricing. For example, $1.99 sounds less expensive than $2.00. Quantity pricing, such as three cans of vegetables for $3.00, sells more because consumers are more likely to buy three cans. What advertising technique is used in these examples?

10. It is a consumer’s responsibility to think about and analyze ads. Give three reasons why this is important.
After reading the article, answer the following questions:

1. Explain how the title—“Advertising: Dollars and Decisions”—summarizes the contents of the article. Answers will vary but may include the following:
   • Both advertisers and consumers spend dollars and make decisions.
   • Businesses pay money to advertise to increase sales and earn more dollars (profit). Consumers spend dollars when they buy the advertised products.
   • Advertisers make decisions on the techniques and venues to use and the amount of money to spend on advertising. Consumers make decisions about what products to buy with their dollars.

2. On average, approximately what percentage of one hour of programming is devoted to actual news on the Fox News Channel? Who is the likely primary target audience for the majority of the commercials on this channel?
   60 minutes of programming – 17 minutes of commercials = 43 minutes of actual news
   43/60 = 72%
   The targeted audience is likely adults.

3. A television guide lists programs and times, but in fact, a substantial part of each time slot is devoted to commercials.
   a. What are some intended consequences of commercials?
      Answers will vary but may include to increase or create a demand for products by influencing consumers’ choices about spending and to increase sales and profits of the businesses advertised.
   b. How are commercials beneficial to consumers?
      Answers will vary but may include that they provide information about new products, give consumers reasons to buy or use the advertised products, provide information about prices so consumers can compare prices among sellers, lower prices through competition, and lower the cost consumers pay for media.
   c. Do viewers sometimes actually enjoy commercials? Cite evidence from the article to support your answer.
      Yes. Figure 3 in the article shows that in a survey conducted after the 2016 Super Bowl, 23 percent of the people surveyed said they watched the game because of the commercials and considered them the most important part of the game.

4. The first affordable automobile, the Ford Model T, was produced and marketed from 1908 to 1927. It was advertised heavily in newspapers. Give reasons why it was not advertised on radio or television as automobiles are today. Radio broadcasting began on a large scale in the 1920s, so this venue did not exist until near the end of the Model T production years. According to the article, there were only 200 television sets in use in 1936, so this venue also did not exist at that time.
5. As the automobile changed the culture of America, so did the Federal-Aid Highway Act of 1956. The act created our interstate highway system, which dramatically increased travel and transportation across the country. Name two venues that likely gained popularity with advertisers as a result of these changes in history and culture. Cite any information in the article to support your answer.

**Teacher note:** The article does not explicitly address this topic but inferences can be made. Answers may vary but may include the following: According to the article, advertisers use research and data to target the “right people” in the most effective way. The inference can be made that as an increasing number of automobiles on the new highways led to more people driving longer distances and listening to the radio. It is reasonable to conclude that radio advertising increased to follow the growing number of traveling consumers. The inference can also be made that more people traveling on highways helped make billboards popular among advertisers.

6. Beginning with Super Bowl 2007 and ending with Super Bowl 2016, how much has the revenue from Super Bowl television advertising increased?


7. Beginning with Super Bowl 2007 and ending with Super Bowl 2016, about how much has the average price of a 30-second Super Bowl ad increased? Show your calculations and circle the correct answer. Why are advertisers willing to spend so much money on Super Bowl commercials?

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<td>$4.80 million in 2016 – $2.39 million in 2007 = $2.41 million increase</td>
<td>The $2.41 million increase is approximately double the amount of $2.39 million in 2007. Advertisers are willing to spend so much money because the massive number of viewers provides an avenue for influencing the spending decisions of millions of consumers in a single program.</td>
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8. Assume that you have a good or service to sell that is popularly used by high school students. What advertising venue(s) would you choose to most effectively market your product? Explain your answer.

Answers will vary.

9. Ads often influence consumer perception by using clever ideas in pricing. For example, $1.99 sounds less expensive than $2.00. Quantity pricing, such as three cans of vegetables for $3.00, sells more because consumers are more likely to buy three cans. What advertising technique is used in these examples?

Gimmicks—Clever ideas or devices

10. It is a consumer’s responsibility to think about and analyze ads. Give three reasons why this is important.

Answers will vary but may include the following:

- Ads can be misleading by using techniques that play on emotion. Examples: using famous people to endorse products, showing the product in a glamorous way, or giving the impression that everybody is using the product.
- Ads can influence consumers to buy things they really don’t want.
- Ads make products seem better than they really are.
- Ads can influence consumers to spend dollars they don’t need to spend.
Extension Activities

1. Instruct the students to select an ad from a magazine and write an analysis of the ad that includes the following:
   - Name of the product
   - Technique(s) used in the ad
   - Target audience(s) of the ad
   - Benefits of buying or using the product
   - Price of product
   - Reasons for consumers to buy the product

2. Instruct the students to construct a chart with headings and columns like the one shown below and to add as many rows as needed. Explain that they are to select any 30-minute television program and record on the chart information about each ad aired during that program. They are to summarize their findings and include the following:
   - How many commercials were shown in the program?
   - What advertising techniques were used the most?
   - What target audience was identified the most?

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<thead>
<tr>
<th>Name of program:</th>
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<td><strong>Product advertised</strong></td>
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Additional Resources

Econ Lowdown® of the Federal Reserve Bank of St. Louis provides numerous economic education resources for teachers to use with their students. These free resources include lesson plans, videos, online modules, interactive whiteboard lessons, and podcasts. They are available at https://www.stlouisfed.org/education.

The resources listed below from Econ Lowdown can be integrated with the content in this article. To register your students for one or more of our online courses, on the Econ Lowdown website (linked above), click the “TEACHERS” button to create or access your account and visit the Instructor Management Panel.

Making Personal Finance Decisions Curriculum Unit

The Making Personal Finance Decisions curriculum teaches valuable personal finance lessons grounded in economic theory. The curriculum is divided into 10 themed units, with each unit containing two lessons. The 20 individual lessons use a variety of teaching strategies designed to engage students in the learning process and equip them with the knowledge and skills necessary to make informed personal finance decisions.

https://www.stlouisfed.org/education/making-personal-financedecisions-curriculum-unit

The Art of Decisionmaking Online Course for Teachers and Students

If you look at what psychologists consider to be high-level stressors, you’ll find a list of about 40 life events. We have no control over many of these events, but for more than half, we do. So much of our stress and success in life depends on the decisions we make. In this short course, students learn the economic underpinnings of the need to make decisions, why every decision bears a cost, and how to make informed decisions.

https://www.stlouisfed.org/education/the-art-of-decisionmaking-online-course-for-teachers-and-students
National Standards and Benchmarks

Common Core State Standards
Grades 6-12 Literacy in History/Social Studies, Science, and Technical Subjects

• Key Ideas and Details
  RH.11-12.1: Cite specific textual evidence to support analysis of primary and secondary sources, connecting insights gained from specific details to an understanding of the text as a whole.
  RH.11-12.2: Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.

• Integration of Knowledge and Ideas
  RH.11-12.7: Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.

Grades 6-12 Reading Standards for Informational Text

• Key Ideas and Details
  RI.11-12.1: Cite strong and thorough textual evidence to support analysis of what the text says explicitly as well as inferences drawn from the text, including determining where the text leaves matters uncertain.

National Standards for Financial Literacy

Standard 2: Buying Goods and Services

People cannot buy or make all the goods and services they want; as a result, people choose to buy some goods and services and not buy others. People can improve their economic well-being by making informed spending decisions, which entails collecting information, planning, and budgeting.

• Benchmarks: Grade 12
  1. Consumer decisions are influenced by the price of a good or service, the price of alternatives, and the consumer’s income as well as his or her preferences.
  4. Consumers may be influenced by how the price of a good is expressed.

Voluntary National Content Standards in Economics

Content Standard 9: Competition and Market Structure

Competition among sellers usually lowers costs and prices, and encourages producers to produce what consumers are willing and able to buy. Competition among buyers increases prices and allocates goods and services to those people who are willing and able to pay the most for them.

• Benchmarks: Grade 12
  1. The pursuit of self-interest in competitive markets usually leads to choices and behavior that also promote the national level of well-being.
  2. The level of competition in an industry is affected by the ease with which new producers can enter the industry, and by consumers’ information about the availability, price and quantity of substitute goods and services.
  3. Some market structures are dominated by large firms, often competing against only a few other firms. Prices in such markets may be higher than they would be in more competitive markets.