

# The Economic Psychology of Television Advertising

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## Abstract

Economic theories of the role of advertising in a market economy tend to focus on the provision of information to the consumer. The empirical validity of this rich body of work has been demonstrated convincingly, and points to a vital role for advertising in ensuring a robust and competitive marketplace. But there are also certain aspects of many advertisements—especially those seen on television—that are not easily explained by conventional economic models. In particular, much of the imagery and repetitive thematic content seen in advertisements would seem to be more “psychological” in nature than “informational.” In this paper we extend the model of Smith and Tasnádi (2009), which shows that information about threshold payoffs can induce sudden shifts in consumer demand by generating non-convexities in preferences over goods. We then examine the possibility that thematic content in a sample of 380 television advertisements conveys information about threshold payoffs. We find considerable evidence of threshold signaling in our sample.

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