**M.A. DEGREE EXAMINATION, DECEMBER – 2019**

**First Year JOURNALISM AND MASS COMMUNICATION**

**Public Relations and Advertising**

**ASSIGNMENT-2**

**Question 2**

Discuss the role of Advertising in economic growth

**Introduction**

The word advertising came from the Latin word' advertere' means "to

turn the mind toward". According to Collins Dictionary, It is a form of paid announcement interested to promote the sale of commodity or services, to advance an idea or to bring about other effect desired by the advertiser. **Webster’s New World Dictionary** has mentioned Advertising is 1. to tell about or praise (a product etc.) as through print media, audio and visual, so as to promote sale; 2. to make known; and 3. to call public to things for sale, for rent etc., as by printed or presented notice.

**Role of Advertising in Economic Growth**

Two Nobel Laureates in economics, Dr. Kenneth Arrow and the late Dr. George Stigler, praise the value of advertising: “Advertising is a powerful tool of competition. It provides valuable information about products and services in an efficient and cost-effective manner. In this way, advertising helps the economy to function smoothly—it keeps prices low and facilitates the entry of new products and new firms into the market.

An assessment of the role of advertising in the economic system offers the following benefits:

1. Advertising is a guide to prospective buyers — Information utility
2. Advertising influences primary and secondary demand for a product.
3. Advertising Stimulates product differentiation — Product utility
4. Advertising Stimulates introduction of new products — Encouraging innovation
5. Propensity to consume; and
6. Advertising Provides financial support to media

### Advertising Acts as Guide to Prospective Buyers

Information utility Advertising provides information. It provides information about products, their specifications, features, functions and prices to prospective buyers.

The consumer becomes knowledgeable of the various attributes of a product or service due to advertisements. Further, he is assumed to be aware of the product — price alternatives available to him and has well defined tastes and preferences and can determine his marginal rate of substitution for each product from among the possible alternative products involved in a particular [purchase decision](https://accountlearning.com/consumer-buying-behavior-types-of-consumer-involvement-in-purchasing/).

In real life, however, consumers are not so well informed. They have to rely on whatever information they can gather from various sources including advertisements. There can be little doubt about the genuine need for certain amount of information for making decisions about the purchase of products and exercise of choice between products and their substitutes among several brands.

### 2. Advertising creates Demand for a Product

The demand for a class of product as a whole may be termed primary demand and the demand for a particular company’s products as the selective demand.

Advertising may shift the demand for a class of products when the demand for that product is expansible, i.e., subject to increase through appeals to [consumers’ buying motives](https://accountlearning.com/characteristics-consumer-buying-motives/). In influencing the shape of the demand curve for any type or class of products, advertising may make the demand either more or less elastic.

If a company is able to shift its demand curve with the help of advertising, it will attain a larger share of the industry’s total sales unless the primary demand expands in equal ratio. If the product does not present a good advertising opportunity, it does not bring a change in a company’s demand schedule

Advertising has not only increases the [demand for some products](https://accountlearning.com/forecast-demand-new-products/) but has also changed the shape of the demand curve by the introduction of new products. In the early stages, there may be a relatively small and inelastic demand. Later, with aggressive advertising, public acceptance is built and other firms start imitating the product. Then the shape of the demand curve is altered.

Advertising tends, in some instances, to make the demand for specific brands of some products relatively price inelastic for varying lengths of time. If the brands have won the loyalty of consumers, they (consumers) may be expected to regularly use them, even when their price relationship with existing brands is disturbed.

### 3. Product Differentiation

Another factor affecting the firm’s capacity to influence demand is product differentiation. In product differentiation rests the opportunity to influence consumers to develop brand preferences. Products in which differentiation is not possible will not be affected by advertising.

Advertising playing a role in expanding the range of merchandise through the stimulation of product differentiation among brands has been much more direct than their influence in widening the range through new inventions of major nature. The desire on the part of producers to offer a variety of products under their [brand names](https://accountlearning.com/selection-of-trademark-or-brand-name-things-to-avoid/) has led them to continue experimenting with different combinations of desirable product qualities.

Technology has contributed towards developing new products which might gain consumer acceptance. It must be noted that artificial product differentiation based solely on advertising is fruitless. Rational economic considerations are probably more important elements of buying decisions than widely assumed.

### 4. Encouraging Innovation

Advertising encourages [product development](https://accountlearning.com/product-development-meaning-methods-categories-stages/) by informing potential buyers about the launch of new products or of improvements made in some products. In many situations, new product introductions require extensive research, development expenditure and substantial investment in production facilities. Advertising can help in recovering such expenses.

### 5. Propensity to Consume

Advertising affects the long-run propensity to consume by influencing tests, though it is doubtful that the effect could occur so rapidly as to affect spending over a [business cycle](https://accountlearning.com/business-cycle-meaning-features-characteristics/)

On the other hand, advertising might affect the short-run propensity to consume by informing consumers of bargains. A study shows that a 1% increase in [advertising expenditure](https://accountlearning.com/total-promotion-budget-methods-of-determining-budget-for-promotional-expenditure/) results in an average short term increase of 0.1% either in sales or market share.

In the long term, it was observed that a 1% increase in advertising was correlated with an average of 0.25% increase in the sales or market share. While advertising apparently created a preference for the advertised goods, the sales response to advertising did not rise in proportion to the increase in advertising expenditure.

### 6. Financial Support to Media

The major functions of the mass media are to provide education, entertainment and information to the audience. For example, the revenue from subscriptions of readers alone is quite inadequate to support the publication of newspapers and magazines. It is the advertisements that they carry bring them more revenue which enable newspapers and magazines to reduce their cover price

Selling of space or time by the media to advertisers is essential for the financial viability of the media. Availability of advertising revenue is a per-requisite for the growth of media through introduction of new media vehicles and for continuation of existing ones.

**Conclusion**

Advertising is a powerful communication force and vital marketing tool helping to sell goods, services, images, and ideas through channel of information and persuasion. It is highly visible force in the society and palys a major role in the economic growth and success of any type of business and industry.

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