

## Chapter 02

### The Economic, Social, and Regulatory Aspects of Advertising

#### True / False Questions

1. The economic effect of advertising triggers off a chain reaction of hard to predict economic events.

True False

2. Advertising adds value to a brand by educating customers about new uses for a product.

True False

3. Intense competition cannot reduce the number of businesses in an industry.

True False

4. The importance of advertising is best demonstrated by the iceberg principle.

True False

5. When an ad states that chicken soup made with Swanson chicken broth "tastes as good as grandma", it is using puffery.

True False

6. Critics claim advertising is so powerful that consumers are helpless to defend themselves against it.

True False

7. Critics argue there is too much advertising due to the proliferation of new media.

True False

8. Advertisers today do not use male and female stereotypes in their ads.

True False

9. According to advertising supporters, it promotes a higher standard of living, subsidizes the arts and supports freedom of the press.

True False

10. Adherence to ethical and socially responsible principles is the moral obligation of advertisers.

True False

11. The U.S. Supreme Court does not differentiate between speech and commercial speech.

True False

12. While most children and parents are still joint consumers, more and more children are becoming sole decision makers.

True False

13. Because there are so many federal, state and local agencies that regulate different aspects of advertising, advertisers sometimes find it difficult to comply with regulations.

True False

14. Deceptive advertising occurs when a consumer is "unjustifiably injured" or there is a "violation of public policy".

True False

15. When State Farm insurance uses advertising to show that it has lower rates than Progressive insurance, it is using comparative advertising.

True False

16. The FTC can request a company to use corrective advertising, but it may not legally require a company to do so.

True False

17. The big cursive G that appears in all ads for General Mills cereals is an example of a trademark.

True False

18. The chief function of the consumer protection agencies found in many cities and counties is to act as a watchdog for the federal regulators.

True False

19. The largest of the U.S. business-monitoring organizations is the Better Business Bureau.

True False

20. Uniform newspaper advertising codes make it easy for advertisers to make sure that their ads meet all legal and ethical requirements.

True False

#### **Essay Questions**

21. Explain in brief the effect of advertisements on consumers and businesses.

22. What does the abundance principle state?

23. Explain the difference between social responsibility and ethics in advertising.

24. What are the four parts of the Central Hudson test?

25. List out the elements of Fair Information Practice Principles.

26. Distinguish between deceptive advertising and unfair advertising.

27. What are the roles and the responsibilities of the Federal Trade Commission (FTC)?

28. Define comparative advertising and describe how the FTC controls its misuse.

29. List and explain briefly the three courses of action open to the Federal Trade Commission (FTC) once it has determined an ad is deceptive or unfair.

30. What are the two operating arms of the National Advertising Review Council (NARC)? Briefly explain the function of each.

**Short Answer Questions**

31. Distinguish between primary demand and selective demand?

32. According to the abundance principle, what two important functions does advertising perform?

33. Define the term 'stereotypes' in advertising.

34. What is ethical advertising?

35. What kinds of information does the Federal Trade Commission (FTC) look for in an investigation of a complaint about an advertiser?

36. Discuss in brief the role of the Nutritional Labeling and Education Act (NLEA).

37. What is a trademark? Give an example of a trademark.

38. How does the Library of Congress help regulate advertising?

39. What is the basis of most state legislation governing advertising?

40. What is consumerism?

**Multiple Choice Questions**

41. According to the text, externalities are:

- A. unseen opportunity costs.
- B. social costs.
- C. factors used to increase the reach of advertising.
- D. environmental tangibility that act as barriers to communications.
- E. inexpensive ways to increase perceptual value to a product.



42. According to the text, which of the following images best describes the chain reaction of economic events that takes place once a company begins to advertise?

- A. The opening break shot in billiards
- B. A beautiful woman entering a room
- C. A car speeding up as it goes downhill
- D. Throwing darts and hitting the bull's eye
- E. The knocking over of a line of dominoes

43. How does advertising affect the value of a product?

- A. Advertising cannot add value to a product if the advertising is needed to educate, consumers about a new product use.
- B. By adding value to a product, advertising eliminates all perceptual barriers to purchase.
- C. The value of advertising explains why someone would buy the more expensive Bayer aspirin rather than the store brand of aspirin that treats the same symptoms.
- D. Advertising always gives added value to generic brands.
- E. Advertising has no effect on the value of a brand or product.

44. Which of the following statements about how advertising affects price is true?

- A. Advertising has a strong effect on the price of agricultural products such as leaf tobacco, soybeans and wheat
- B. Advertising always increases the price of a product—never lowers it
- C. The consumer who buys the product pays for the advertising
- D. Advertising has had a significant impact on the prices charged by utilities
- E. The amount typically spent on advertising is large compared with total sales

45. Which of the following statements is true about how advertising affects competition?

- A. Some observers believe that advertising actually restricts competition.
- B. Advertising is not a barrier to competition.
- C. Advertising is regulated so that it does not impede competition.
- D. Intense advertising often encourages the entry of new brands and manufacturers into the marketplace.
- E. Non-advertised products cannot compete with advertised products.

46. Mike and Lou are going to the mall. Mike wants to buy a pair of jeans and Lou wants to buy a pair of Levi boot-cut jeans. Mike illustrates \_\_\_\_\_ demand while Lou illustrates \_\_\_\_\_ demand.

- A. secondary; kinked
- B. longitudinal; circular
- C. external; internal
- D. primary; selective
- E. selective; primary

47. Maria is very upset because the writers' strike has caused her to have to live without learning what's to come with the women on Desperate Housewives and how dangerous the secret organization depicted in Heroes is. Her husband is happy as long as something mindless is on television. Maria is exhibiting \_\_\_\_\_ demand.

- A. primary
- B. kinked
- C. secondary
- D. seasoned
- E. selective

48. What effect does advertising have on consumer demand?

- A. Advertising creates trade barriers that prevent new competitors from entering the marketplace.
- B. Advertising slows the rate of product decline.
- C. Advertising moves the product quickly to the point in the product life cycle where it can be replaced by more efficient IMC.
- D. Advertising slows the adoption process and thus, lengthens the product life cycle.
- E. Advertising is intended to provide a smooth layoff to products in the latter stages of their PLC.

49. Which of the following statements about the effects of advertising on the business cycle is true?

- A. Historically, when business cycles dip, advertising expenditures increase.
- B. The increased advertising expenditures that occur during business cycle dips always produce an increase in personal consumption expenditures.
- C. When business cycles are down, advertising may act as a stabilizing force.
- D. The effect of advertising on business cycles is easily determined and monitored.
- E. Advertising does not affect the business cycle.

50. The abundance principle states that in an economy that produces more goods and services than can be consumed, advertising:

- A. maintains high prices.
- B. keeps consumers informed of their selection alternatives.
- C. contributes to the earth's waste disposal problem.
- D. prevents companies from successfully competing for consumer dollars.
- E. acts as a stabilizing factor during a business cycle downturn.

51. According to the \_\_\_\_, if an economy produces more goods and services than can be consumed, advertising allows companies to compete more effectively for consumer dollars and keeps consumers informed of their selection alternatives.

- A. abundance principle
- B. macroeconomic theory of supply and demand
- C. economic principle of normalization
- D. utilitarian principle of advertising
- E. normative theory of supply and demand

52. \_\_\_\_ refers to exaggerated, subjective claims that can't be proven true or false.

- A. Misleading advertising
- B. Hyperbole
- C. Advertising manipulation
- D. Exploitative advertising
- E. Puffery

53. When the city of Pensacola, Florida, advertises itself as "the perfect place for the perfect Florida vacation", it is using:

- A. unfair advertising.
- B. advertising hyperbole.
- C. deceptive advertising.
- D. puffery.
- E. exploitative advertising.

54. In a 1940 issue of Time magazine, the Chesapeake and Ohio train lines advertised that riding its trains would provide travelers with "the most pleasant trip they have ever known." This advertiser is using:

- A. unfair advertising.
- B. hyperbole.
- C. deceptive advertising.
- D. puffery.
- E. exploitative advertising.

55. Under current law, the only product claims that are considered deceptive are those that:

- A. unjustifiably injures the consumer.
- B. contain inadequate information.
- C. violate public policy.
- D. are factually false and have the potential of misleading reasonable people.
- E. produce claims without prior substantiation.

56. Which of the following statements is true about deceptive advertising?

- A. Puffery can be called deceptive advertising when consumers believe it to be true.
- B. Deceptive advertising is sometimes used because it establishes long-term consumer confidence in the product being advertised.
- C. To be labeled as deceptive, ads must contain some claims which are not prior substantiated.
- D. Deceptive ads serve the best interests of the advertisers.
- E. There are no regulations governing deceptive advertising.

57. The basic premise of \_\_\_\_\_ is that advertisers intentionally create ads with sexual messages that are hidden in the illustrations just below the limen.

- A. suggestive selling
- B. hidden attribution communication
- C. subliminal advertising
- D. perliminal communication
- E. faux marketing

58. According to Wilson Bryan Key, subliminal advertising:

- A. works by creating a need for a previously unsought product.
- B. consumers cannot be forced to perceive what cannot be seen.
- C. works through embedded messages that seduce consumers into buying the good or service.
- D. faux advertising is unethical.
- E. results in a normative demand cycle for products.

59. When advertisers spend millions of dollars trying to convince people that their products will make them sexier, healthier and more successful, they are trying to:

- A. manipulate consumers' value systems.
- B. shorten product life cycles.
- C. avoid the need to use peripheral advertising.
- D. proliferate stereotypical consumers.
- E. avoid the use of puffery.

60. Which of the following statements about the proliferation of advertising is true?

- A. The proliferation of advertising is purely a consumer misperception.
- B. While consumers believe there is a potential for too much advertising, advertisers do not believe it.
- C. Most people tolerate ad clutter as the price they must pay for freedom of the press, free TV and a high standard of living.
- D. The FCC has imposed no restraints on advertising clutter in any media.
- E. The proliferation of advertising has plateaued.

61. According to the owner of NPC & Associates, Maryland's largest African-American-owned ad agency, "If you were to come from another planet and watch American television, you would think that all black people did was play basketball and hang out on street corners and do rap music." He is accusing advertising of:

- A. making consumers too materialistic.
- B. being excessive.
- C. manipulating people into buying things they don't need.
- D. being deliberately deceptive.
- E. perpetuating stereotypes.

62. Ever since the Napoleonic Wars, the British have used the derogatory term 'frogs' to refer to the French. When the London-based Institute Francais advertised French language courses at all levels from beginners to advanced students, it pictured the development of a frog in stages from egg through tadpole to full maturity. This would be an example of:

- A. deliberate deception.
- B. advertising manipulation.
- C. faux marketing.
- D. stereotype perpetuation.
- E. cultural malfeasance.

63. With respect to offensiveness in advertising, Benetton ads frequently come under attack for its usage of nudity and sexual innuendo. Professionals indicate that the ultimate regulator of such ads is the fact that:

- A. the government is currently forming policy that will completely control this form of advertising.
- B. companies such as this will never be able to successfully expand worldwide where moral standards are higher than in the United States.
- C. trends will eventually change and the problem will take care of itself.
- D. such companies will eventually run out of money and the advertising will cease.
- E. if the ads don't pull in the audience, the campaign will falter and die—the marketplace has the ultimate veto power.

64. \_\_\_\_\_ means doing what the advertiser and the advertiser's peers believe is morally right in a given situation.

- A. Principled advertising
- B. Situational advertising
- C. Truth-in-advertising
- D. Ethical advertising
- E. Responsible advertising

65. Socially responsible advertisers:

- A. are always is mindful of man's need for open communication.
- B. do what the government wants.
- C. do what society views as best for the welfare of people in general.
- D. do what ethical societies have prescribed for businesses.
- E. realize their primary responsibility is to provide the greatest good for the largest number of people.

66. Nike's Air Jordan XX3, the 23<sup>rd</sup> edition of the series of shoes endorsed by retired basketball star Michael Jordan, differs from its predecessors because it is the first basketball shoe shaped by what Nike calls "Nike Considered," an approach to design that favors environmentally-preferable materials, reduces toxic chemicals and curbs waste. By adopting such environmentally-supportive standards to make its products, Nike is:

- A. manipulating the consumer.
- B. behaving in a socially responsible fashion.
- C. perpetuating a materialistic viewpoint.
- D. complying with federal regulations.
- E. initiating a market development strategy.

67. How do advertisers show their social responsibility?

- A. By refraining from the use of advertising clutter
- B. By providing millions of dollars of pro bono work to nonprofit organizations
- C. By obeying FTC regulations
- D. By creating markets for new products
- E. By creating self-regulatory agencies

68. How has the U.S. Supreme Court intervened in the rights of advertisers under the First Amendment?

- A. It has supported the ban against professional advertising.
- B. It has established strict control over packaged-goods advertising.
- C. It has banned all cigarette advertisements from the broadcast media.
- D. It has distinguished between "speech" and "commercial speech" and offered significant protection for truthful commercial speech.
- E. It has made social responsibility mandatory for publicly traded firms.

69. To promote responsible children's advertising and to respond to public concerns, the Council of Better Business Bureaus established the:

- A. Children's Protection Agency (CPA).
- B. Children's Advertising Review Unit (CARU).
- C. Children's Board of Information.
- D. Board of Advertising Review.
- E. Code for Ethical Children's Advertising (CECA).

70. Which of the following statements about consumer privacy issues is true?

- A. Concern about privacy is declining from a high reached during the 1990s.
- B. The fact Web sites gather information about visitors without knowledge of the visitors is a privacy concern.
- C. Internet companies use the information they gather about consumers to create personalized files about each individual.
- D. The Federal Communications Commission regulates privacy rights.
- E. Enabling cookies help the Internet users to safeguard their personal information.

71. The Federal Trade Commission (FTC) regulates:

- A. advertising for products sold in interstate commerce.
- B. hazardous packaging and advertising of products.
- C. liquor advertisements, through its power to suspend, revoke or deny renewal of manufacturing and sales permits for distillers and brewers.
- D. the advertising, packaging and branding of all packaged goods.
- E. the placement and wording of warning statements in advertisements for toys, household products and other hazardous substances that can cause injury or death.



72. The FTC defines \_\_\_\_\_ as any ad that contains a misrepresentation, omission or other practice that can mislead a significant number of reasonable consumers to their detriment.

- A. hazardous IMC
- B. faux marketing
- C. unfair advertising
- D. deceptive advertising
- E. subversive advertising

73. U.S. Caviar ran ads in an onboard American Airlines magazine offering real Russian caviar at substantially lower prices than it typically sold for. Later FTC investigators determined that the caviar U.S. Caviar was selling as exotic Russian caviar was produced in the U.S. and was actually overpriced given its quality. U.S. Caviar engaged in:

- A. an ethical lapse.
- B. unethical advertising.
- C. deceptive advertising.
- D. an ethical dilemma.
- E. anti-competitive advertising.

74. Safeway, a UK supermarket chain, was reprimanded by a government agency in the United Kingdom because it distributed a leaflet titled "More reasons NOT to shop at Morrisons". (Morrisons is one of Safeway's primary competitors in the UK). In the leaflet, Safeway depicted two shopping receipts, one for Safeway and one for Morrisons. The Safeway receipt claimed goods purchased at Safeway were much cheaper than the same goods purchased at Morrisons. Morrisons said that the goods on the imaginary receipt were not typical purchases and that the reason they were cheaper on the Safeway receipt was because the goods were on sale in the Safeway store. The FTC would have said that Safeway was guilty of:

- A. an ethical lapse.
- B. unethical advertising.
- C. deceptive advertising.
- D. an ethical dilemma.
- E. non-competitive advertising.

75. \_\_\_\_\_ advertising occurs when a consumer is "unjustifiably injured" or there is a "violation of public policy".

- A. Deceptive
- B. Corrective
- C. Unfair
- D. Hazardous
- E. Injurious

76. A complaint was filed with the Federal Trade Commission that accused the film industry regularly advertised R-rated movies during television shows and in magazines most popular with children. In other words, the FTC investigated to see if the film industry was guilty of:

- A. hazardous advertising.
- B. unfair advertising.
- C. deceptive advertising.
- D. an ethical dilemma.
- E. anti-competitive advertising.

77. In 2005, Adolph Coors Co. ran an ad which featured a purported taste test between Aspen Edge and Anheuser-Busch's Michelob Ultra. A taste-tester downed a glass of Aspen Edge and took only a sip of Michelob Ultra. A print version of the ad said, "Beer drinkers agree that Aspen Edge has more taste than Michelob Ultra". This ad is an example of \_\_\_\_\_ advertising.

- A. corrective
- B. professional
- C. comparative
- D. cease-desist
- E. consent

78. Two companies, Le Shuttle and P&O European Ferries, provide Europeans with the ability to cross the English Channel. An advertisement for Le Shuttle claimed it was more popular with travelers than P&O European Ferries. This is an example of \_\_\_\_\_ advertising.

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- A. was exercising its right to protect its trademark.
- B. accused Coors of violating copyright laws.
- C. was using laws designed to protect protects from gray marketing.
- D. wanted to see the research data that supported this claim of superior taste.
- E. issued an unsupported cease-and-desist order.

80. Two companies, Le Shuttle and P&O European Ferries, provide Europeans with the ability to cross the English Channel. An advertisement for Le Shuttle claimed it was more popular with travelers than P&O European Ferries. P&O European Ferries lodged an objection with a European regulatory agency and pointed out that they had carried 1.4 million cars in the previous year compared to only 1 million on the Shuttle. P&O European Ferries was hoping to get Le Shuttle to run \_\_\_\_\_ advertising.

- A. corrective
- B. professional
- C. comparative
- D. cease-desist
- E. consent

81. When Grace looked at the container of Roundup weed and grass killer, she saw a notice that read, "Avoid contact with eyes. This product can cause eye irritation". This \_\_\_\_\_ would be important to all of us who wanted to take the best possible care of our eyes.

- A. package requirement
- B. testimonial
- C. nutritional claim
- D. consent decree
- E. affirmative disclosure

82. When the Federal Trade Commission determines that an ad is deceptive or unfair, it can:

- A. require the advertiser to run cooperative advertising.
- B. convince the advertiser to sign a consent decree.
- C. require the advertiser to pay reimbursements to all consumers who bought the product.
- D. force the firm that ran the deceptive ad to get "advance clearance" on all future ad campaigns.
- E. place a federal representative in the deceptive firm's advertising department to oversee future ad campaigns.

83. A(n) \_\_\_\_\_ is a document that the advertiser accused of deceptive or unfair advertising signs in which it agrees to stop the objectionable advertising.

- A. consent decree
- B. product substantiation claim
- C. cessation order
- D. ad sanctioning agreement
- E. guilt disclosure

84. Which of the following statements is true about cease-and-desist orders?

- A. They are voluntary statements that have no legal ramifications.
- B. They require that the FTC place a representative in the advertising department of the accused advertiser to monitor further campaigns.
- C. They prohibit further use of the offending advertisement.
- D. They prohibit any kind of advertisement by the offending company.
- E. They are issued by the Better Business Bureau.

85. The Federal Trade Commission has filed a complaint against Provide Commerce, the parent company of Pro-Flowers, for "false and misleading" advertising. Pro-Flowers claim that it ships inventory "directly from the fields". The ads imply that the flowers are not picked until they are ordered. Pro-Flowers actually stores flowers in refrigerated warehouses and ships from these warehouses. The FTC can order Pro-Flowers to run \_\_\_\_\_ and inform its customers that its flowers do not come fresh from the field.

- A. substantiated advertisement
- B. corrective advertisement
- C. cease-desist orders
- D. consent orders
- E. cessation order

86. Which of the following statements about the Food and Drug Administration (FDA) is true?

- A. The FDA has authority over the labeling, packaging and branding of all packaged foods and therapeutic devices.
- B. The FDA monitors all copyrighted material.
- C. The FDA does not require health food manufacturers to list the ingredients of their products on package labels.
- D. The FDA has no control over promotional statements on package labels.
- E. The FDA is a branch of the Federal Trade Commission (FTC).

87. Which federal agency would have the authority to deal with the fact that a brand of hotdog marked "Low Fat" contains only ten percent less fat than regular hotdogs?

- A. The Library of Congress
- B. The Patent and Trademark Office
- C. The Food and Drug Administration
- D. The united states post office
- E. The federal communications commission

88. An ad in a 1940 Time magazine states, "Listerine mouthwash reduces germs on up to 96.7% of tissue surfaces 15 minutes after a Listerine gargle. Which federal agency would have the authority to determine if this claim was correct?

- A. The Library of Congress
- B. The Patent and Trademark Office
- C. The Food and Drug Administration
- D. The united states post office
- E. The federal communications commission

89. The \_\_\_\_\_ has indirect control over advertising through its authority to license or revoke the license of all broadcasting stations.

- A. Federal Trade Commission
- B. Federal Communications Commission
- C. Better Business Bureau
- D. National advertising review council
- E. Office of Consumer Affairs

90. Through the issuance of \_\_\_\_\_, the government provides incentives to invent, invest in and disclose new technology worldwide.

- A. trademarks
- B. copyrights
- C. patents
- D. venture capital
- E. differential advantages

91. A trademark:

- A. is any word, name, symbol or device or combination thereof, which identifies one particular product or line of products from a single source.
- B. prevents the whole ad from being legally used by another.
- C. is required by law to be significantly different from the trade name of the organization that owns the trademark.
- D. is registered and protected by the Library of Congress.
- E. grants exclusive rights to the trademarked material for the life span of its owner plus an additional 50 years.

92. Which of the following can be copyrighted?

- A. An idea for an ad campaign featuring comic characters from the 1930s
- B. The dynamic ribbon used in Coca-Cola ads
- C. The U.S. Marine Corps symbol
- D. The NBC peacock
- E. The newest book by Dan Brown

93. Much of the state legislation that deals with advertising is based on the:

- A. constitution of Great Britain.
- B. self-regulation codes published by the advertising profession.
- C. "truth-in-advertising" model developed by Printer's Ink, the industry trade paper for many years.
- D. U.S. Supreme court's "code of commercial speech."
- E. federal government's "General Code of Advertising Ethics."

94. Which of the following is the largest of the U.S. business-monitoring organizations?

- A. Office of Consumer Affairs
- B. Better business bureau
- C. Consumer protection agency
- D. American Association of Consumers
- E. U.S. Chamber of commerce

95. The primary purpose of the National Advertising Review Council is to:

- A. promote and enforce standards of truth, accuracy, taste, morality and social responsibility in advertising.
- B. supplant the Federal Trade Commission as the chief advertising regulatory agency.
- C. work with the Department of Justice to prevent any one company from monopolizing a particular media.
- D. protect consumers from unfair and deceptive advertising.
- E. promote the benefits of advertising to its critics.

96. The National Advertising Division (NAD) of the National Advertising Review Council (NARC):

- A. promotes the benefits of advertising to its critics.
- B. serves as the appeal board for decisions made by the National Advertising Review Board.
- C. is a monitoring and investigative body.
- D. protect consumers from unfair and deceptive advertising.
- E. guides new businesses in the development of ethical advertising codes.

97. Good Housekeeping magazine places its "Seal of Approval" on all the products advertised in it. If any of the products are later found to be defective, Good Housekeeping promises to refund the money paid for the products. This kind of careful screening:

- A. is required by the Federal Trade Commission.
- B. is a way for a medium to monitor its advertisements.
- C. was required by legislation passed during the Great Depression and Good Housekeeping has continued the practice.
- D. is used by most print media, including the tabloids.
- E. is redundant given the watchfulness of federal regulatory agencies.

98. \_\_\_\_\_ is defined as social action designed to dramatize the rights of the buying public.

- A. De-marketing
- B. Consumerism
- C. Social responsibility
- D. Socialization
- E. Consumer lobbying

99. Consumer advocate groups:

- A. substantiate ads.
- B. sponsor competitor boycotts.
- C. create communications barriers that make it difficult for advertisers to reach consumers.
- D. submit complaints about ads to appropriate government agencies.
- E. issue trademarks and copyrights.

100. The \_\_\_\_\_, an association of the largest ad agencies in the United States, monitors industry-wide advertising practices.

- A. American Advertising Federation
- B. Association of National Advertisers
- C. Consumer Federation of America
- D. American Association of Advertising Agencies
- E. National Advertising Review Council



## Chapter 02 The Economic, Social, and Regulatory Aspects of Advertising

### Answer Key

#### True / False Questions

1. (p. 30) The economic effect of advertising triggers off a chain reaction of hard to predict economic events.

**TRUE**

The economic effect of advertising is like the break shot in billiards or pool. The moment a company begins to advertise, it sets off a chain reaction of economic events. The extent of the chain reaction, although hard to predict, is related to the force of the shot and the economic environment in which it occurred.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: The Economic Impact of Advertising*

2. (p. 31) Advertising adds value to a brand by educating customers about new uses for a product.

**TRUE**

Advertising also adds value to a brand by educating customers about new uses for a product.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: Effect on the Value of Products*

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3. (p. 32) Intense competition cannot reduce the number of businesses in an industry.

**FALSE**

Intense competition does tend to reduce the number of businesses in an industry.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: Effect on Competition*

4. (p. 33) The importance of advertising is best demonstrated by the iceberg principle.

**FALSE**

The importance of advertising is best demonstrated by the abundance principle.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: The Abundance Principle: The Economic Impact of Advertising in Perspective*

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5. (p. 34) When an ad states that chicken soup made with Swanson chicken broth "tastes as good as grandma", it is using puffery.

**TRUE**

Puffery refers to exaggerated, often subjective claims that can't necessarily be proven true or false, such as "the best" or "the only way to fly."

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Deception in Advertising*

6. (p. 36) Critics claim advertising is so powerful that consumers are helpless to defend themselves against it.

**TRUE**

Again, critics claim advertising is so powerful consumers are helpless to defend themselves against it.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Advertising and Our Value System*

7. (p. 37) Critics argue there is too much advertising due to the proliferation of new media.

**TRUE**

However, with the proliferation of new media choices, this externality is only likely to get worse. Virtually every popular Web site is cluttered with advertising banners, and our e-mail boxes are flooded with advertising messages on a daily basis.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: The Proliferation of Advertising*

8. (p. 37) Advertisers today do not use male and female stereotypes in their ads.

**FALSE**

Many advertisers are just not aware of the externalities that their ads can create and they may perpetuate stereotypes without even realizing it.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Stereotypes in Advertising*

9. (p. 38) According to advertising supporters, it promotes a higher standard of living, subsidizes the arts and supports freedom of the press.

**TRUE**

Advertising, they point out, also promotes a higher standard of living; it pays for most of our news media and subsidizes the arts; it supports freedom of the press; and it provides a means to disseminate public information about important health and social issues.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: The Social Impact of Advertising in Perspective*

10. (p. 39) Adherence to ethical and socially responsible principles is the moral obligation of advertisers.

**TRUE**

Together, ethics and social responsibility can be seen as the moral obligation of advertisers not to violate our basic economic assumptions, even when there is no legal obligation.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-03 Explain the difference between social responsibility and ethics in advertising.*

*Topic: Social Responsibility and Advertising Ethics*

11. (p. 41) The U.S. Supreme Court does not differentiate between speech and commercial speech.

**FALSE**

The Supreme Court historically distinguishes between "speech" and "commercial speech" (speech that promotes a commercial transaction).

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: Freedom of Commercial Speech*

12. (p. 43) While most children and parents are still joint consumers, more and more children are becoming sole decision makers.

**TRUE**

More and more children are becoming the sole decision makers about the products they consume.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: Advertising to Children*

13. (p. 45-46) Because there are so many federal, state and local agencies that regulate different aspects of advertising, advertisers sometimes find it difficult to comply with regulations.

**TRUE**

Among the many federal agencies and departments that regulate advertising are the Federal Trade Commission, the Food and Drug Administration, the Federal Communications Commission, the Patent and Trademark Office, and the Library of Congress. Because their jurisdictions often overlap, advertisers may sometimes have difficulty complying with their regulations.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: Federal Regulation of Advertising in the United States*

14. (p. 46) Deceptive advertising occurs when a consumer is "unjustifiably injured" or there is a "violation of public policy".

**FALSE**

Unfair advertising occurs when a consumer is "unjustifiably injured" or there is a "violation of public policy" (such as other government statutes).

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

15. (p. 47) When State Farm insurance uses advertising to show that it has lower rates than Progressive insurance, it is using comparative advertising.

**TRUE**

Advertisers use comparative advertising to claim superiority to competitors in some aspect.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

16. (p. 48) The FTC can request a company to use corrective advertising, but it may not legally require a company to do so.

**FALSE**

The FTC can legally require a company to run corrective ads if it has advertised without substantiation for its claims.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

17. (p. 50-51) The big cursive G that appears in all ads for General Mills cereals is an example of a trademark.

**TRUE**

According to the Lanham Trademark Act (1947), a trademark is "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The Patent and Trademark Office and the Library of Congress*

18. (p. 52) The chief function of the consumer protection agencies found in many cities and counties is to act as a watchdog for the federal regulators.

**FALSE**

Many cities and counties also have consumer protection agencies to enforce laws regulating local advertising practices. The chief function of these agencies is to protect local consumers against unfair and misleading practices by area merchants.

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: State and Local Regulation*

19. (p. 52) The largest of the U.S. business-monitoring organizations is the Better Business Bureau.

**TRUE**

The largest of the U.S. business-monitoring organizations is the Better Business Bureau (BBB), established in 1916.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-05 Discuss the activities of non government organizations in fighting fraudulent and deceptive advertising.*

*Topic: The Better Business Bureau (BBB)*

20. (p. 53) Uniform newspaper advertising codes make it easy for advertisers to make sure that their ads meet all legal and ethical requirements.

**FALSE**

One problem advertisers face is that newspapers' codes are far from uniform. Handgun ads may be prohibited by one newspaper, accepted by another if the guns are antique, and permitted by a third as long as the guns aren't automatic.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Discuss the activities of non government organizations in fighting fraudulent and deceptive advertising.*

*Topic: Regulation by the Media*



**Essay Questions**

21. (p. 32) Explain in brief the effect of advertisements on consumers and businesses.

The question of advertising's effect on total consumer demand is extremely complex. Numerous studies show that promotional activity does affect aggregate consumption, but they disagree as to the extent of its influence. For example, the demand for flat-panel TVs, cellular phones, and laptop computers expanded at a tremendous rate, thanks in part to advertising but more to favorable market conditions. At the same time, advertising hasn't reversed declining sales of such items as hats, fur coats, and manual typewriters.

*AACSB: Analytic*  
*Bloom's: Understand*  
*Difficulty: Hard*  
*Learning Objective: 02-01 Describe the impact of advertising on the economy.*  
*Topic: Effect on Consumers and Businesses*

22. (p. 33) What does the abundance principle state?

The abundance principle states that in an economy that produces more goods and services than can be consumed, advertising serves two important purposes. It keeps consumers informed of their alternatives, and it allows companies to compete more effectively for consumer dollars.

*AACSB: Analytic*  
*Bloom's: Remember*  
*Difficulty: Medium*  
*Learning Objective: 02-01 Describe the impact of advertising on the economy.*  
*Topic: The Abundance Principle: The Economic Impact of Advertising in Perspective*

23. (p. 39) Explain the difference between social responsibility and ethics in advertising.

Ethical advertising means doing what the advertiser and the advertiser's peers believe is morally right in a given situation. Social responsibility means doing what society views as best for the welfare of people in general or for a specific community of people.

*AACSB: Analytic*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: 02-03 Explain the difference between social responsibility and ethics in advertising.*  
*Topic: Social Responsibility and Advertising Ethics*

24. (p. 41) What are the four parts of the Central Hudson test?

The Central Hudson test includes the following four parts: 1) Does the commercial speech at issue concern a lawful activity? 2) Will the restriction of commercial speech serve the asserted government interest substantially? 3) Does the regulation directly advance the government interest asserted? 4) Is the restriction no more than necessary to further the interest asserted?

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: Freedom of Commercial Speech*

25. (p. 45) List out the elements of Fair Information Practice Principles.

The "Fair Information Practice Principles" consist of five core elements: 1) Notice, which requires that the Web site clearly post its privacy policy. 2) Choice, which relates to consumers' level of control over being profiled and how their information is used. 3) Access, the ability for consumers to access information collected about them and make amendments to it. 4) Security, which requires that network advertisers make reasonable efforts to protect the data they collect from loss, misuse, or improper access. 5) Enforcement, a requirement that all industry members subject themselves to monitoring by an independent third party to ensure compliance with the Fair Information Practice Principles.

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: Consumer Privacy*

26. (p. 46) Distinguish between deceptive advertising and unfair advertising.

Deceptive advertising is any ad in which "there is a misrepresentation, omission or other practice that is likely to mislead the consumer, acting reasonably in the circumstances, to the consumer's detriment". Unfair advertising: According to the FTC, advertising that causes a consumer to be "unjustifiably injured" or that violates public policy.

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

27. (p. 46) What are the roles and the responsibilities of the Federal Trade Commission (FTC)?

The Federal Trade Commission (FTC) is the major regulator of advertising for products sold in interstate commerce. The FTC is charged with ensuring "that the nation's markets function competitively, and are vigorous, efficient, and free of undue restrictions." It is the FTC's responsibility to maintain the existence of many sellers in the marketplace, strive to provide more complete information to consumers, and keep the marketing process as free of externalities as possible.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

28. (p. 47) Define comparative advertising and describe how the FTC controls its misuse.

Comparative advertising is advertising in which one company claims its product is superior to another in some respect. The ads must compare some objectively comparable measurable characteristic. Anyone guilty of misrepresentations about a competitor's product is vulnerable to a civil suit. (The previous law made no such mention of misrepresentation.)

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

29. (p. 48) List and explain briefly the three courses of action open to the Federal Trade Commission (FTC) once it has determined an ad is deceptive or unfair.

When the FTC determines that an ad is deceptive or unfair, it may take three courses of action: negotiate with the advertiser for a consent decree, issue a cease-and-desist order, and/or require corrective advertising. A consent decree is a document the advertiser signs agreeing to stop the objectionable advertising without admitting any wrongdoing. If an advertiser won't sign a consent decree, the FTC may issue a cease-and-desist order prohibiting further use of the ad. The FTC may also require corrective advertising for some period of time to explain and correct offending ads.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

30. (p. 53) What are the two operating arms of the National Advertising Review Council (NARC)? Briefly explain the function of each.

The NARC has two operating arms: the National Advertising Division (NAD) of the Council of Better Business Bureaus and the National Advertising Review Board (NARB). The NAD monitors advertising practices and reviews complaints about advertising from consumers and consumer groups, brand competitors, local Better Business Bureaus, trade associations, and others. The appeals board for NAD decisions is the NARB, which consists of a chairperson and 70 volunteer members (40 national advertisers, 20 agency representatives, and 10 laypeople).

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Discuss the activities of non government organizations in fighting fraudulent and deceptive advertising.*

*Topic: The National Advertising Review Council (NARC)*

**Short Answer Questions**

31. (p. 32) Distinguish between primary demand and selective demand?

Primary demand: Consumer demand for a whole product category.

Selective demand: Consumer demand for the particular advantages of one brand over another.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: Effect on Consumers and Businesses*

32. (p. 33) According to the abundance principle, what two important functions does advertising perform?

Advertising keeps consumers informed of their selection alternatives. It also allows companies to compete more effectively for consumers.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: The Abundance Principle: The Economic Impact of Advertising in Perspective*

33. (p. 37) Define the term 'stereotypes' in advertising.

Stereotypes: Negative or limiting preconceived beliefs about a type of person or a group of people that do not take into account individual differences.

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Stereotypes in Advertising*

34. (p. 39) What is ethical advertising?

Ethical advertising means doing what the advertiser and the advertiser's peers believe is morally right in a given situation.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-03 Explain the difference between social responsibility and ethics in advertising.*

*Topic: Social Responsibility and Advertising Ethics*

35. (p. 48) What kinds of information does the Federal Trade Commission (FTC) look for in an investigation of a complaint about an advertiser?

Typically, the FTC looks for three kinds of information: substantiation, endorsements, and affirmative disclosures.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

36. (p. 49) Discuss in brief the role of the Nutritional Labeling and Education Act (NLEA).

The NLEA provided the FDA with additional powers by setting stringent legal definitions for terms such as fresh, light, low fat, and reduced calories. It also sets standard serving sizes and requires labels to show food value for one serving alongside the total recommended daily value as established by the National Research Council.

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The Food and Drug Administration (FDA)*

37. (p. 50-51) What is a trademark? Give an example of a trademark.

According to the Lanham Trademark Act (1947), a trademark is "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others." Students' answers will vary from the Coca-Cola ribbon to the Nike swoosh.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The Patent and Trademark Office and the Library of Congress*

38. (p. 51) How does the Library of Congress help regulate advertising?

The Library of Congress protects all copyrighted material, including advertising, in the United States.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The Patent and Trademark Office and the Library of Congress*

39. (p. 51) What is the basis of most state legislation governing advertising?

State legislation governing advertising is often based on the truth-in-advertising model statute developed in 1911 by Printer's Ink, for many years the major trade publication of the industry.

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: State and Local Regulation*

40. (p. 54) What is consumerism?

The consumer movement gave rise to consumerism, social action to dramatize the rights of the buying public.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Discuss the activities of non government organizations in fighting fraudulent and deceptive advertising.*

*Topic: Regulation by Consumer Groups*

### Multiple Choice Questions

41. (p. 29) According to the text, externalities are:

A. unseen opportunity costs.

**B.** social costs.

C. factors used to increase the reach of advertising.

D. environmental tangibility that act as barriers to communications.

E. inexpensive ways to increase perceptual value to a product.

The principle of free-market economics is characterized by four fundamental assumptions: self interest, many buyers and sellers, complete information, and absence of externalities (social costs).

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: The Many Controversies about Advertising*



42. (p. 30) According to the text, which of the following images best describes the chain reaction of economic events that takes place once a company begins to advertise?

- A. The opening break shot in billiards
- B. A beautiful woman entering a room
- C. A car speeding up as it goes downhill
- D. Throwing darts and hitting the bull's eye
- E. The knocking over of a line of dominoes

The economic effect of advertising is like the break shot in billiards or pool. The moment a company begins to advertise, it sets off a chain reaction of economic events.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: The Better Business Bureau (BBB)*

43. (p. 30-31) How does advertising affect the value of a product?

- A. Advertising cannot add value to a product if the advertising is needed to educate, consumers about a new product use.
- B. By adding value to a product, advertising eliminates all perceptual barriers to purchase.
- C. The value of advertising explains why someone would buy the more expensive Bayer aspirin rather than the store brand of aspirin that treats the same symptoms.
- D. Advertising always gives added value to generic brands.
- E. Advertising has no effect on the value of a brand or product.

Advertising increases the value of a product when it is used to educate consumers about a new use. Advertising increases self-interest by adding value to a product like a pair of jeans. Advertising can give added value, but the creators of the advertising are not always successful. There are examples of many failed products too.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Hard*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: Effect on the Value of Products*

44. (p. 32) Which of the following statements about how advertising affects price is true?
- A. Advertising has a strong effect on the price of agricultural products such as leaf tobacco, soybeans and wheat
  - B. Advertising always increases the price of a product—never lowers it
  - C. The consumer who buys the product pays for the advertising**
  - D. Advertising has had a significant impact on the prices charged by utilities
  - E. The amount typically spent on advertising is large compared with total sales

As a cost of doing business, advertising is indeed paid for by the consumer who buys the product. The government regulates the price of agricultural products. As one element of the mass-distribution system, advertising can help to lower unit costs of products. Historically, advertising has had no impact on the prices charged by utilities. The amount typically spent on advertising is very small compared with total sales.

*AACSB: Analytic*  
*Bloom's: Understand*  
*Difficulty: Hard*  
*Learning Objective: 02-01 Describe the impact of advertising on the economy.*  
*Topic: Effect on Prices*

45. (p. 32) Which of the following statements is true about how advertising affects competition?
- A. Some observers believe that advertising actually restricts competition.**
  - B. Advertising is not a barrier to competition.
  - C. Advertising is regulated so that it does not impede competition.
  - D. Intense advertising often encourages the entry of new brands and manufacturers into the marketplace.
  - E. Non-advertised products cannot compete with advertised products.

Some believe advertising restricts competition because small companies or industry newcomers can't compete with the immense advertising budgets of large firms. At the grocery store, non-advertised store brands compete effectively with advertised ones. Intense advertising can reduce the number of competitors in the market.

*AACSB: Analytic*  
*Bloom's: Understand*  
*Difficulty: Hard*  
*Learning Objective: 02-01 Describe the impact of advertising on the economy.*  
*Topic: Effect on Prices*

46. (p. 32) Mike and Lou are going to the mall. Mike wants to buy a pair of jeans and Lou wants to buy a pair of Levi boot-cut jeans. Mike illustrates \_\_\_\_\_ demand while Lou illustrates \_\_\_\_\_ demand.

- A. secondary; kinked
- B. longitudinal; circular
- C. external; internal
- D. primary; selective**
- E. selective; primary

Primary demand is demand for a product class and selective demand is demand for a particular brand.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: Effect on Consumers and Businesses*

47. (p. 32) Maria is very upset because the writers' strike has caused her to have to live without learning what's to come with the women on Desperate Housewives and how dangerous the secret organization depicted in Heroes is. Her husband is happy as long as something mindless is on television. Maria is exhibiting \_\_\_\_\_ demand.

- A. primary
- B. kinked
- C. secondary
- D. seasoned
- E. selective**

Selective demand is demand for a particular brand.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: Effect on Consumers and Businesses*

48. (p. 32) What effect does advertising have on consumer demand?

- A. Advertising creates trade barriers that prevent new competitors from entering the marketplace.
- B.** Advertising slows the rate of product decline.
- C. Advertising moves the product quickly to the point in the product life cycle where it can be replaced by more efficient IMC.
- D. Advertising slows the adoption process and thus, lengthens the product life cycle.
- E. Advertising is intended to provide a smooth layoff to products in the latter stages of their PLC.

In declining markets, when the only information people want is price information, advertising can influence selective demand—demand for a particular brand. But the only effect it will have on primary demand is to slow the rate of decline.

*AACSB: Analytic*  
*Bloom's: Understand*  
*Difficulty: Hard*  
*Learning Objective: 02-01 Describe the impact of advertising on the economy.*  
*Topic: Effect on Consumers and Businesses*

49. (p. 33) Which of the following statements about the effects of advertising on the business cycle is true?

- A. Historically, when business cycles dip, advertising expenditures increase.
- B. The increased advertising expenditures that occur during business cycle dips always produce an increase in personal consumption expenditures.
- C.** When business cycles are down, advertising may act as a stabilizing force.
- D. The effect of advertising on business cycles is easily determined and monitored.
- E. Advertising does not affect the business cycle.

We conclude that when business cycles are up, advertising contributes to the increase. When business cycles are down, advertising may act as a stabilizing force by encouraging buyers to continue buying.

*AACSB: Analytic*  
*Bloom's: Understand*  
*Difficulty: Hard*  
*Learning Objective: 02-01 Describe the impact of advertising on the economy.*  
*Topic: Effect on Consumers and Businesses*

50. (p. 33) The abundance principle states that in an economy that produces more goods and services than can be consumed, advertising:

- A. maintains high prices.
- B.** keeps consumers informed of their selection alternatives.
- C. contributes to the earth's waste disposal problem.
- D. prevents companies from successfully competing for consumer dollars.
- E. acts as a stabilizing factor during a business cycle downturn.

The abundance principle states that in an economy that produces more goods and services than can be consumed, advertising serves two important purposes. It keeps consumers informed of their alternatives, and it allows companies to compete more effectively for consumer dollars.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: The Abundance Principle: The Economic Impact of Advertising in Perspective*

51. (p. 33) According to the \_\_\_\_\_, if an economy produces more goods and services than can be consumed, advertising allows companies to compete more effectively for consumer dollars and keeps consumers informed of their selection alternatives.

- A.** abundance principle
- B. macroeconomic theory of supply and demand
- C. economic principle of normalization
- D. utilitarian principle of advertising
- E. normative theory of supply and demand

The abundance principle states that in an economy that produces more goods and services than can be consumed, advertising serves two important purposes. It keeps consumers informed of their alternatives, and it allows companies to compete more effectively for consumer dollars.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-01 Describe the impact of advertising on the economy.*

*Topic: The Abundance Principle: The Economic Impact of Advertising in Perspective*

52. (p. 34) \_\_\_\_\_ refers to exaggerated, subjective claims that can't be proven true or false.

- A. Misleading advertising
- B. Hyperbole
- C. Advertising manipulation
- D. Exploitative advertising
- E. Puffery**

Puffery refers to exaggerated, often subjective claims that can't necessarily be proven true or false, such as "the best" or "the only way to fly."

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Deception in Advertising*

53. (p. 34) When the city of Pensacola, Florida, advertises itself as "the perfect place for the perfect Florida vacation", it is using:

- A. unfair advertising.
- B. advertising hyperbole.
- C. deceptive advertising.
- D. puffery.**
- E. exploitative advertising.

Puffery is exaggerated, subjective claims that can't be proven true or false.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Deception in Advertising*

54. (p. 34) In a 1940 issue of Time magazine, the Chesapeake and Ohio train lines advertised that riding its trains would provide travelers with "the most pleasant trip they have ever known." This advertiser is using:

- A. unfair advertising.
- B. hyperbole.
- C. deceptive advertising.
- D. puffery.**
- E. exploitative advertising.

Puffery is exaggerated, subjective claims that can't be proven true or false.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Deception in Advertising*

55. (p. 34) Under current law, the only product claims that are considered deceptive are those that:

- A. unjustifiably injures the consumer.
- B. contain inadequate information.
- C. violate public policy.
- D. are factually false and have the potential of misleading reasonable people.**
- E. produce claims without prior substantiation.

Under current advertising law, the only product claims— explicit or implied—that are considered deceptive are those that are factually false or convey a false impression and therefore have the potential to deceive or mislead reasonable people.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Hard*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Deception in Advertising*

56. (p. 34) Which of the following statements is true about deceptive advertising?

- A.** Puffery can be called deceptive advertising when consumers believe it to be true.
- B. Deceptive advertising is sometimes used because it establishes long-term consumer confidence in the product being advertised.
- C. To be labeled as deceptive, ads must contain some claims which are not prior substantiated.
- D. Deceptive ads serve the best interests of the advertisers.
- E. There are no regulations governing deceptive advertising.

Even meaningless (but legal) puffery might be taken literally and therefore mislead.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Hard*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Deception in Advertising*

57. (p. 36) The basic premise of \_\_\_\_\_ is that advertisers intentionally create ads with sexual messages that are hidden in the illustrations just below the limen.

- A. suggestive selling
- B. hidden attribution communication
- C.** subliminal advertising
- D. periliminal communication
- E. faux marketing

Wilson Bryan Key promotes the notion that, to seduce consumers, advertisers intentionally create ads with sexual messages hidden in the illustrations. He calls this subliminal advertising. His premise is that by embedding dirty words in the ice cubes in a liquor ad, for instance, advertisers can make us want to buy the product.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: The Subliminal Advertising Myth*



58. (p. 36) According to Wilson Bryan Key, subliminal advertising:

- A. works by creating a need for a previously unsought product.
- B. consumers cannot be forced to perceive what cannot be seen.
- C.** works through embedded messages that seduce consumers into buying the good or service.
- D. faux advertising is unethical.
- E. results in a normative demand cycle for products.

Wilson Bryan Key promotes the notion that, to seduce consumers, advertisers intentionally create ads with sexual messages hidden in the illustrations. He calls this subliminal advertising. His premise is that by embedding dirty words in the ice cubes in a liquor ad, for instance, advertisers can make us want to buy the product.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: The Subliminal Advertising Myth*

59. (p. 36) When advertisers spend millions of dollars trying to convince people that their products will make them sexier, healthier and more successful, they are trying to:

- A.** manipulate consumers' value systems.
- B. shorten product life cycles.
- C. avoid the need to use peripheral advertising.
- D. proliferate stereotypical consumers.
- E. avoid the use of puffery.

An argument, often voiced by critics, is that advertising degrades people's value systems by promoting a hedonistic, materialistic way of life. This manipulation works because ads play on our emotions and promise greater status, social acceptance, and sex appeal.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Advertising and Our Value System*

60. (p. 36-37) Which of the following statements about the proliferation of advertising is true?
- A. The proliferation of advertising is purely a consumer misperception.
  - B. While consumers believe there is a potential for too much advertising, advertisers do not believe it.
  - C.** Most people tolerate ad clutter as the price they must pay for freedom of the press, free TV and a high standard of living.
  - D. The FCC has imposed no restraints on advertising clutter in any media.
  - E. The proliferation of advertising has plateaued.

While the clutter problem is irksome to viewers and advertisers alike, most people tolerate it as the price for free TV, freedom of the press, and a high standard of living. Ad clutter is increasing and is a reality to both consumers and advertisers. Advertisers find it as annoying as do consumers.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: The Proliferation of Advertising*

61. (p. 37) According to the owner of NPC & Associates, Maryland's largest African-American-owned ad agency, "If you were to come from another planet and watch American television, you would think that all black people did was play basketball and hang out on street corners and do rap music." He is accusing advertising of:
- A. making consumers too materialistic.
  - B. being excessive.
  - C. manipulating people into buying things they don't need.
  - D. being deliberately deceptive.
  - E.** perpetuating stereotypes.

He is accusing advertising of being insensitive to minorities.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Stereotypes in Advertising*

62. (p. 37) Ever since the Napoleonic Wars, the British have used the derogatory term 'frogs' to refer to the French. When the London-based Institute Francais advertised French language courses at all levels from beginners to advanced students, it pictured the development of a frog in stages from egg through tadpole to full maturity. This would be an example of:
- A. deliberate deception.
  - B. advertising manipulation.
  - C. faux marketing.
  - D.** stereotype perpetuation.
  - E. cultural malfeasance.

The ad is perpetuating the negative image of the French people as frogs.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Stereotypes in Advertising*

63. (p. 37) With respect to offensiveness in advertising, Benetton ads frequently come under attack for its usage of nudity and sexual innuendo. Professionals indicate that the ultimate regulator of such ads is the fact that:
- A. the government is currently forming policy that will completely control this form of advertising.
  - B. companies such as this will never be able to successfully expand worldwide where moral standards are higher than in the United States.
  - C. trends will eventually change and the problem will take care of itself.
  - D. such companies will eventually run out of money and the advertising will cease.
  - E.** if the ads don't pull in the audience, the campaign will falter and die—the marketplace has the ultimate veto power.

Ultimately, the marketplace has veto power. If ads don't pull in the audience, the campaign will falter and die.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-02 Examine the validity of the various social criticisms of advertising.*

*Topic: Offensive Advertising*

64. (p. 39) \_\_\_\_\_ means doing what the advertiser and the advertiser's peers believe is morally right in a given situation.

- A. Principled advertising
- B. Situational advertising
- C. Truth-in-advertising
- D. Ethical advertising**
- E. Responsible advertising

Ethical advertising means doing what the advertiser and the advertiser's peers believe is morally right in a given situation.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-03 Explain the difference between social responsibility and ethics in advertising.*

*Topic: Social Responsibility and Advertising Ethics*

65. (p. 39) Socially responsible advertisers:

- A. are always is mindful of man's need for open communication.
- B. do what the government wants.
- C. do what society views as best for the welfare of people in general.**
- D. do what ethical societies have prescribed for businesses.
- E. realize their primary responsibility is to provide the greatest good for the largest number of people.

Social responsibility means doing what society views as best for the welfare of people in general or for a specific community of people.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-03 Explain the difference between social responsibility and ethics in advertising.*

*Topic: Social Responsibility and Advertising Ethics*

66. (p. 39) Nike's Air Jordan XX3, the 23<sup>rd</sup> edition of the series of shoes endorsed by retired basketball star Michael Jordan, differs from its predecessors because it is the first basketball shoe shaped by what Nike calls "Nike Considered," an approach to design that favors environmentally-preferable materials, reduces toxic chemicals and curbs waste. By adopting such environmentally-supportive standards to make its products, Nike is:

- A. manipulating the consumer.
- B. behaving in a socially responsible fashion.**
- C. perpetuating a materialistic viewpoint.
- D. complying with federal regulations.
- E. initiating a market development strategy.

The firm is helping to better society. In the United States, for example, the advertising industry is part of a large business community. Like any good neighbor, it has responsibilities: to keep its property clean, participate in civic events, support local enterprises, and improve the community.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-03 Explain the difference between social responsibility and ethics in advertising.*

*Topic: Advertisers' Social Responsibility*

67. (p. 39) How do advertisers show their social responsibility?

- A. By refraining from the use of advertising clutter
- B. By providing millions of dollars of pro bono work to nonprofit organizations**
- C. By obeying FTC regulations
- D. By creating markets for new products
- E. By creating self-regulatory agencies

These organizations provide thousands of hours and millions of dollars' worth of pro bono (free) work to charitable organizations and public agencies. They also provide scholarships and internships, contributions that serve the whole society. As we discuss later, they even regulate themselves fairly effectively.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-03 Explain the difference between social responsibility and ethics in advertising.*

*Topic: Advertisers' Social Responsibility*

68. (p. 41) How has the U.S. Supreme Court intervened in the rights of advertisers under the First Amendment?

- A. It has supported the ban against professional advertising.
- B. It has established strict control over packaged-goods advertising.
- C. It has banned all cigarette advertisements from the broadcast media.
- D.** It has distinguished between "speech" and "commercial speech" and offered significant protection for truthful commercial speech.
- E. It has made social responsibility mandatory for publicly traded firms.

The Supreme Court historically distinguishes between "speech" and "commercial speech" (speech that promotes a commercial transaction). But decisions over the last two decades suggest that truthful commercial speech is also entitled to significant, if not full, protection under the First Amendment.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: Freedom of Commercial Speech*

69. (p. 43) To promote responsible children's advertising and to respond to public concerns, the Council of Better Business Bureaus established the:

- A. Children's Protection Agency (CPA).
- B.** Children's Advertising Review Unit (CARU).
- C. Children's Board of Information.
- D. Board of Advertising Review.
- E. Code for Ethical Children's Advertising (CECA).

To promote responsible children's advertising and to respond to public concerns, the Council of Better Business Bureaus established the Children's Advertising Review Unit (CARU).

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: Advertising to Children*

70. (p. 43-44) Which of the following statements about consumer privacy issues is true?

- A. Concern about privacy is declining from a high reached during the 1990s.
- B.** The fact Web sites gather information about visitors without knowledge of the visitors is a privacy concern.
- C. Internet companies use the information they gather about consumers to create personalized files about each individual.
- D. The Federal Communications Commission regulates privacy rights.
- E. Enabling cookies help the Internet users to safeguard their personal information.

Internet users worry about people they don't know, and even businesses they do know, getting personal information about them. And their concern is not without merit. With faxes, mobile phones and the increasing use of computers, concerns about privacy have never been greater. Internet companies' use the information gathered to create products, etc those appeal to people with similar tastes. Advertisers would prefer the FTC not to intervene in this issue.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Hard*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: Consumer Privacy*

71. (p. 46) The Federal Trade Commission (FTC) regulates:

- A.** advertising for products sold in interstate commerce.
- B. hazardous packaging and advertising of products.
- C. liquor advertisements, through its power to suspend, revoke or deny renewal of manufacturing and sales permits for distillers and brewers.
- D. the advertising, packaging and branding of all packaged goods.
- E. the placement and wording of warning statements in advertisements for toys, household products and other hazardous substances that can cause injury or death.

The Federal Trade Commission (FTC) is the major regulator of advertising for products sold in interstate commerce.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

72. (p. 46) The FTC defines \_\_\_\_\_ as any ad that contains a misrepresentation, omission or other practice that can mislead a significant number of reasonable consumers to their detriment.

- A. hazardous IMC
- B. faux marketing
- C. unfair advertising
- D. deceptive advertising**
- E. subversive advertising

The FTC defines deceptive advertising as any ad that contains a misrepresentation, omission, or any other practice that can mislead a significant number of reasonable consumers to their detriment.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

73. (p. 46) U.S. Caviar ran ads in an onboard American Airlines magazine offering real Russian caviar at substantially lower prices than it typically sold for. Later FTC investigators determined that the caviar U.S. Caviar was selling as exotic Russian caviar was produced in the U.S. and was actually overpriced given its quality. U.S. Caviar engaged in:

- A. an ethical lapse.
- B. unethical advertising.
- C. deceptive advertising.**
- D. an ethical dilemma.
- E. anti-competitive advertising.

The FTC defines deceptive advertising as any ad that contains a misrepresentation, omission or other practice that can mislead a significant number of reasonable consumers to their detriment.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*



74. (p. 46) Safeway, a UK supermarket chain, was reprimanded by a government agency in the United Kingdom because it distributed a leaflet titled "More reasons NOT to shop at Morrisons". (Morrisons is one of Safeway's primary competitors in the UK). In the leaflet, Safeway depicted two shopping receipts, one for Safeway and one for Morrisons. The Safeway receipt claimed goods purchased at Safeway were much cheaper than the same goods purchased at Morrisons. Morrisons said that the goods on the imaginary receipt were not typical purchases and that the reason they were cheaper on the Safeway receipt was because the goods were on sale in the Safeway store. The FTC would have said that Safeway was guilty of:

- A. an ethical lapse.
- B. unethical advertising.
- C. deceptive advertising.**
- D. an ethical dilemma.
- E. non-competitive advertising.

The FTC defines deceptive advertising as any ad that contains a misrepresentation, omission or other practice that can mislead a significant number of reasonable consumers to their detriment.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

75. (p. 46) \_\_\_\_\_ advertising occurs when a consumer is "unjustifiably injured" or there is a "violation of public policy".

- A. Deceptive
- B. Corrective
- C. Unfair**
- D. Hazardous
- E. Injurious

Unfair advertising occurs when a consumer is "unjustifiably injured" or there is a "violation of public policy" (such as other government statutes).

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

76. (p. 46) A complaint was filed with the Federal Trade Commission that accused the film industry regularly advertised R-rated movies during television shows and in magazines most popular with children. In other words, the FTC investigated to see if the film industry was guilty of:

- A. hazardous advertising.
- B. unfair advertising.**
- C. deceptive advertising.
- D. an ethical dilemma.
- E. anti-competitive advertising.

Unfair advertising occurs when a consumer is injured or there is a violation of public policy.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

77. (p. 47) In 2005, Adolph Coors Co. ran an ad which featured a purported taste test between Aspen Edge and Anheuser-Busch's Michelob Ultra. A taste-tester downed a glass of Aspen Edge and took only a sip of Michelob Ultra. A print version of the ad said, "Beer drinkers agree that Aspen Edge has more taste than Michelob Ultra". This ad is an example of \_\_\_\_\_ advertising.

- A. corrective
- B. professional
- C. comparative**
- D. cease-desist
- E. consent

Advertisers use comparative advertising to claim superiority to competitors in some aspect.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

78. (p. 47) Two companies, Le Shuttle and P&O European Ferries, provide Europeans with the ability to cross the English Channel. An advertisement for Le Shuttle claimed it was more popular with travelers than P&O European Ferries. This is an example of \_\_\_\_\_ advertising.

- A. corrective
- B. professional
- C. comparative**
- D. cease-desist
- E. consent

Advertisers use comparative advertising to claim superiority over named competitors.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

79. (p. 47) In 2005, Adolph Coors Co. ran an ad which featured a purported taste test between Aspen Edge and Anheuser-Busch's Michelob Ultra. A taste-tester downed a glass of Aspen Edge and took only a sip of Michelob Ultra. A print version of the ad said, "Beer drinkers agree that Aspen Edge has more taste than Michelob Ultra". Coors was forced to remove the television advertisements after Anheuser-Busch said it made unsubstantiated claims about consumer preferences. Anheuser-Busch:

- A. was exercising its right to protect its trademark.
- B. accused Coors of violating copyright laws.
- C. was using laws designed to protect protects from gray marketing.
- D. wanted to see the research data that supported this claim of superior taste.**
- E. issued an unsupported cease-and-desist order.

Under current law, any advertiser that misrepresents its own or another firm's goods, services, or activities is vulnerable to a civil action. In addition to being truthful, comparative ads must compare on some objectively measurable characteristic. And the greatest scrutiny must be given to the substantiation. Comparison advertising requires convincing substantiation; otherwise it may be considered deceptive. (Refer Truth in Advertising: Fluffing and Puffing, Page 35)

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

80. (p. 48) Two companies, Le Shuttle and P&O European Ferries, provide Europeans with the ability to cross the English Channel. An advertisement for Le Shuttle claimed it was more popular with travelers than P&O European Ferries. P&O European Ferries lodged an objection with a European regulatory agency and pointed out that they had carried 1.4 million cars in the previous year compared to only 1 million on the Shuttle. P&O European Ferries was hoping to get Le Shuttle to run \_\_\_\_\_ advertising.

- A. corrective
- B. professional
- C. comparative
- D. cease-desist
- E. consent

Corrective advertising is required to explain and correct offending or misleading ads.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

81. (p. 48) When Grace looked at the container of Roundup weed and grass killer, she saw a notice that read, "Avoid contact with eyes. This product can cause eye irritation". This \_\_\_\_\_ would be important to all of us who wanted to take the best possible care of our eyes.

- A. package requirement
- B. testimonial
- C. nutritional claim
- D. consent decree
- E. affirmative disclosure

Advertisers must make affirmative disclosure of their product's limitations or deficiencies: for example, EPA mileage ratings for cars, pesticide warnings, and statements that saccharin may be hazardous to one's health.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

82. (p. 48) When the Federal Trade Commission determines that an ad is deceptive or unfair, it can:

- A. require the advertiser to run cooperative advertising.
- B.** convince the advertiser to sign a consent decree.
- C. require the advertiser to pay reimbursements to all consumers who bought the product.
- D. force the firm that ran the deceptive ad to get "advance clearance" on all future ad campaigns.
- E. place a federal representative in the deceptive firm's advertising department to oversee future ad campaigns.

A consent decree is a document the advertiser signs agreeing to stop the objectionable advertising without admitting any wrongdoing.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

83. (p. 48) A(n) \_\_\_\_\_ is a document that the advertiser accused of deceptive or unfair advertising signs in which it agrees to stop the objectionable advertising.

- A.** consent decree
- B. product substantiation claim
- C. cessation order
- D. ad sanctioning agreement
- E. guilt disclosure

A consent decree is a document the advertiser signs agreeing to stop the objectionable advertising without admitting any wrongdoing.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

84. (p. 48) Which of the following statements is true about cease-and-desist orders?
- A. They are voluntary statements that have no legal ramifications.
  - B. They require that the FTC place a representative in the advertising department of the accused advertiser to monitor further campaigns.
  - C.** They prohibit further use of the offending advertisement.
  - D. They prohibit any kind of advertisement by the offending company.
  - E. They are issued by the Better Business Bureau.

Cease-and-desist order: May be issued by the FTC if an advertiser won't sign a consent decree; prohibits further use of an ad.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

85. (p. 48) The Federal Trade Commission has filed a complaint against Provide Commerce, the parent company of Pro-Flowers, for "false and misleading" advertising. Pro-Flowers claim that it ships inventory "directly from the fields". The ads imply that the flowers are not picked until they are ordered. Pro-Flowers actually stores flowers in refrigerated warehouses and ships from these warehouses. The FTC can order Pro-Flowers to run \_\_\_\_\_ and inform its customers that its flowers do not come fresh from the field.
- A. substantiated advertisement
  - B.** corrective advertisement
  - C. cease-desist orders
  - D. consent orders
  - E. cessation order

The FTC may also require corrective advertising for some period of time to explain and correct offending ads.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The U.S. Federal Trade Commission*

86. (p. 49) Which of the following statements about the Food and Drug Administration (FDA) is true?

- A. The FDA has authority over the labeling, packaging and branding of all packaged foods and therapeutic devices.
- B. The FDA monitors all copyrighted material.
- C. The FDA does not require health food manufacturers to list the ingredients of their products on package labels.
- D. The FDA has no control over promotional statements on package labels.
- E. The FDA is a branch of the Federal Trade Commission (FTC).

The Food and Drug Administration (FDA) is authorized by Congress to enforce the Federal Food, Drug, and Cosmetic Act and several other health laws. The agency monitors the manufacture, import, transport, storage, and sale of over \$1 trillion worth of products annually.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The Food and Drug Administration (FDA)*

87. (p. 49) Which federal agency would have the authority to deal with the fact that a brand of hotdog marked "Low Fat" contains only ten percent less fat than regular hotdogs?

- A. The Library of Congress
- B. The Patent and Trademark Office
- C. The Food and Drug Administration
- D. The United States Post Office
- E. The Federal Communications Commission

The FDA has authority over the labeling, packaging and branding of all packaged foods.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The Food and Drug Administration (FDA)*

88. (p. 49) An ad in a 1940 Time magazine states, "Listerine mouthwash reduces germs on up to 96.7% of tissue surfaces 15 minutes after a Listerine gargle. Which federal agency would have the authority to determine if this claim was correct?"

- A. The Library of Congress
- B. The Patent and Trademark Office
- C. The Food and Drug Administration**
- D. The United States Post Office
- E. The Federal Communications Commission

The FDA has authority over the labeling, packaging and branding of all packaged foods, cosmetics and medicines.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The Food and Drug Administration (FDA)*

89. (p. 49) The \_\_\_\_\_ has indirect control over advertising through its authority to license or revoke the license of all broadcasting stations.

- A. Federal Trade Commission
- B. Federal Communications Commission**
- C. Better Business Bureau
- D. National Advertising Review Council
- E. Office of Consumer Affairs

The seven-member Federal Communications Commission (FCC) is an independent federal agency with jurisdiction over the radio, television, telephone, satellite and cable TV industries, and the Internet. Its control over broadcast advertising stems from its authority to license broadcasters (or take away their licenses).

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The Federal Communications Commission (FCC)*



90. (p. 50) Through the issuance of \_\_\_\_\_, the government provides incentives to invent, invest in and disclose new technology worldwide.

- A. trademarks
- B. copyrights
- C. patents**
- D. venture capital
- E. differential advantages

Through the issuance of patents, the government provides incentives to invent, invest in, and disclose new technology worldwide.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The Patent and Trademark Office and the Library of Congress*

91. (p. 50-51) A trademark:

- A.** is any word, name, symbol or device or combination thereof, which identifies one particular product or line of products from a single source.
- B. prevents the whole ad from being legally used by another.
- C. is required by law to be significantly different from the trade name of the organization that owns the trademark.
- D. is registered and protected by the Library of Congress.
- E. grants exclusive rights to the trademarked material for the life span of its owner plus an additional 50 years.

According to the Lanham Trademark Act (1947), a trademark is "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The Patent and Trademark Office and the Library of Congress*

92. (p. 51) Which of the following can be copyrighted?

- A. An idea for an ad campaign featuring comic characters from the 1930s
- B. The dynamic ribbon used in Coca-Cola ads
- C. The U.S. Marine Corps symbol
- D. The NBC peacock
- E. The newest book by Dan Brown**

Ideas, slogans and familiar symbols and designs cannot be copyrighted. A copyright is a form of protection provided to the authors of "original works of authorship," including literary, dramatic, musical, artistic, and certain other "intellectual works."

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: The Patent and Trademark Office and the Library of Congress*

93. (p. 51) Much of the state legislation that deals with advertising is based on the:

- A. constitution of Great Britain.
- B. self-regulation codes published by the advertising profession.
- C. "truth-in-advertising" model developed by Printer's Ink, the industry trade paper for many years.**
- D. U.S. Supreme court's "code of commercial speech."
- E. federal government's "General Code of Advertising Ethics."

State legislation governing advertising is often based on the truth-in-advertising model statute developed in 1911 by Printer's Ink, for many years the major trade publication of the industry.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-04 Describe how government agencies regulate advertising to protect both consumers and competitors.*

*Topic: State and Local Regulation*

94. (p. 52) Which of the following is the largest of the U.S. business-monitoring organizations?

- A. Office of Consumer Affairs
- B. Better business bureau**
- C. Consumer protection agency
- D. American Association of Consumers
- E. U.S. Chamber of commerce

The largest of the U.S. business-monitoring organizations is the Better Business Bureau (BBB), established in 1916.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-05 Discuss the activities of non government organizations in fighting fraudulent and deceptive advertising.*

*Topic: The Better Business Bureau (BBB)*

95. (p. 52-53) The primary purpose of the National Advertising Review Council is to:

- A. promote and enforce standards of truth, accuracy, taste, morality and social responsibility in advertising.**
- B. supplant the Federal Trade Commission as the chief advertising regulatory agency.
- C. work with the Department of Justice to prevent any one company from monopolizing a particular media.
- D. protect consumers from unfair and deceptive advertising.
- E. promote the benefits of advertising to its critics.

The National Advertising Review Council (NARC) was established in 1971. Its primary purpose is to promote and enforce standards of truth, accuracy, taste, morality, and social responsibility in advertising.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Discuss the activities of non government organizations in fighting fraudulent and deceptive advertising.*

*Topic: The National Advertising Review Council (NARC)*

96. (p. 53) The National Advertising Division (NAD) of the National Advertising Review Council (NARC):

- A. promotes the benefits of advertising to its critics.
- B. serves as the appeal board for decisions made by the National Advertising Review Board.
- C. is a monitoring and investigative body.**
- D. protect consumers from unfair and deceptive advertising.
- E. guides new businesses in the development of ethical advertising codes.

The NARC has two operating arms: the National Advertising Division (NAD) of the Council of Better Business Bureaus and the National Advertising Review Board (NARB). The NAD monitors advertising practices and reviews complaints about advertising from consumers and consumer groups, brand competitors, local Better Business Bureaus, trade associations, and others. The appeals board for NAD decisions is the NARB, which consists of a chairperson and 70 volunteer members.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-05 Discuss the activities of non government organizations in fighting fraudulent and deceptive advertising.*

*Topic: The National Advertising Review Council (NARC)*

97. (p. 53) Good Housekeeping magazine places its "Seal of Approval" on all the products advertised in it. If any of the products are later found to be defective, Good Housekeeping promises to refund the money paid for the products. This kind of careful screening:

- A. is required by the Federal Trade Commission.
- B. is a way for a medium to monitor its advertisements.**
- C. was required by legislation passed during the Great Depression and Good Housekeeping has continued the practice.
- D. is used by most print media, including the tabloids.
- E. is redundant given the watchfulness of federal regulatory agencies.

Almost all media companies review ads and reject material they regard as objectionable, even if it isn't deceptive. Most people think the media are more effective regulators than the government.

*AACSB: Reflective Thinking*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-05 Discuss the activities of non government organizations in fighting fraudulent and deceptive advertising.*

*Topic: Regulation by the Media*

98. (p. 54) \_\_\_\_\_ is defined as social action designed to dramatize the rights of the buying public.

- A. De-marketing
- B. Consumerism**
- C. Social responsibility
- D. Socialization
- E. Consumer lobbying

The consumer movement gave rise to consumerism, social action to dramatize the rights of the buying public.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-05 Discuss the activities of non government organizations in fighting fraudulent and deceptive advertising.*

*Topic: Regulation by Consumer Groups*

99. (p. 54) Consumer advocate groups:

- A. substantiate ads.
- B. sponsor competitor boycotts.
- C. create communications barriers that make it difficult for advertisers to reach consumers.
- D. submit complaints about ads to appropriate government agencies.**
- E. issue trademarks and copyrights.

If a complaint is warranted, they ask the advertiser to halt the objectionable ad or practice. If the advertiser does not comply, they release publicity or criticism about the offense to the media and submit complaints with substantiating evidence to appropriate government agencies for further action.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Discuss the activities of non government organizations in fighting fraudulent and deceptive advertising.*

*Topic: Regulation by Consumer Groups*

Chapter 02 - The Economic, Social, and Regulatory Aspects of Advertising

100. (p. 54) The \_\_\_\_\_, an association of the largest ad agencies in the United States, monitors industry-wide advertising practices.

- A. American Advertising Federation
- B. Association of National Advertisers
- C. Consumer Federation of America
- D. American Association of Advertising Agencies**
- E. National Advertising Review Council

The American Association of Advertising Agencies (AAAA), an association of the largest advertising agencies throughout the United States, controls agency practices by denying membership to any agency judged unethical.

*AACSB: Analytic*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-05 Discuss the activities of non government organizations in fighting fraudulent and deceptive advertising.*

*Topic: Self-Regulation by Advertisers and Ad Agencies*