

Inelastic supply and demand of super bowl commercials essay sample



**ASSIGN
BUSTER**

Price elasticity of demand (PED) is the responsiveness of quantity demanded in relation to the price. Normally as price increases for an elastic good the quantity demanded will fall. This is affected by how many close substitutes there are for the good and if the good is a luxury good (jewelry) or a necessary good (food). If the price of a certain type of cheese increases, less will be demanded because there are many substitutes available such as other brands of cheese. The inelasticity of demand is applicable when referring to goods which have few if any substitutes, super bowl commercials are an example of an inelastic good. The network airing the super bowl has a fixed amount of commercials they are able to sell which results in a quota of commercials that needs to be filled.

The longer the period before the night of the super bowl, the higher the price per commercial is. As super bowl night gets closer the price gets lower in order for the network to fill all available commercial slots. When this happens smaller companies who cannot afford the initial price will find themselves in the middle of a price war nearing the super bowl airing. When there is a fixed supply of a certain good the elasticity of the good is inelastic since no matter how large the demand for super bowl commercials the supply will never increase which results in a vertical supply curve. This type of elasticity of demand is said to be perfectly inelastic where $PED = 0$.

P1 is the highest price the network wishes to charge per commercial. At P1 only Q1 is demanded so neither the large companies (D1) nor the small companies (D2) are willing to meet the network's quota (Q). At P2 the larger companies are willing to purchase a certain amount of air time but the smaller companies are still unwilling. As super bowl night gets closer the

<https://assignbuster.com/inelastic-supply-and-demand-of-super-bowl-commercials-essay-sample/>

demand curve shifts from D1 to D2. Small companies pay P3 (discounted price) and fill the rest of the network's quota.

For smaller companies the gamble can be quite substantial. The company needs to do a sufficient cost-benefit analysis of the super bowl commercial. Cost-benefit analysis entails weighing the overall expected cost and overall expected benefit of producing a good. When the expected benefit outweighs the expected cost the company will likely commence production. When making a cost-benefit analysis the small company must take many variables into account. For a 30-second super bowl commercial the company will have to calculate the odds of the entire audience seeing the commercial and the average response to the commercial by the actual viewers. The following diagram is the demand shift projected after cost-benefit analysis.

PC = Private Cost. S = Supply of goods the company is willing to provide at a given price. D1 = Initial Demand. D2 = Projected Demand after super bowl night. The company hopes that demand will shift to D2 and result in a price increase from P1 to P2. D2 = Marginal revenue and is allocatively efficient

Actual Results are as followed since 90% of the projected viewers were either in the bathroom or replenishing food supplies during the commercial's airing (results are 3 months after super bowl night):

Since the Total Cost far exceeded the Total Revenue after the super bowl this resulted in a private benefit loss represented by area ABC. Ideal outcome for the firm would be at C where $MPC = MPB$. The cost-benefit analysis failed to take into account the anomaly that only 10% of the viewers would actually see the commercial.

<https://assignbuster.com/inelastic-supply-and-demand-of-super-bowl-commercials-essay-sample/>

Cost-benefit analysis is a vital tool when making projections of expected costs and benefits for a firm. Small companies cannot afford to be impetuous with their existing capital and gamble on a super bowl commercial. Large companies can afford the loss represented by the above diagrams. Smaller companies should look into a less precarious marketing strategy which will be more effective over time as opposed to investing resources in one night (even if the odds of reaching a large audience are fairly high). Internet and Google advertising is a good option for smaller companies since the company will pay-per-click as each consumer visits their web page. Other possibilities include billboards or magazine advertisements that their target audiences enjoy regularly. The inelastic demand of super bowl commercials should be left by smaller companies to be filled by companies who can afford the marginal loss.

References:

La Monica, Paul R. " Are Super Bowl ads worth the money?" 24 Jan. 2007. 5 Feb. 2007