On the Economics of Persuasion and Indoctrination

Gary S. Becker
Kevin M. Murphy
Motivation

• Efforts to persuade are an important part of economic activity
  • Advertising
  • Promotion
  • Indoctrination of children, citizens, etc.

• Question: What does rational choice tell us about persuasion?
The basic model (Becker & Murphy – Advertising as a Good (or Bad))

- Two types of arguments in utility: consumption of goods \(X\) and efforts to persuade \(A\)
- \(U(X,Y,A_x,A_y)\)
  - This framework allows for many types of persuasion
  - Information
  - Association
  - Cues
  - Pressure (peers, family, salesmen, etc.)
- Consumer chooses \(X\) and \(Y\)
- Providers gets to choose \(A\) subject to consumer willing to accept them
A Simple Model in Household Production Language

• A utility maximizing approach
• Two goods X & Y
• Two types of persuasive efforts
  • $A_X$ – trying to increase the consumption of X
  • $A_Y$ – trying to increase the consumption of Y
• $U = U(X,Y,A_X,A_Y)$
• $U_X > 0 \quad U_Y > 0$
A Simple Model in Household Production Language

Preferences:
\[ U = U(X, Y, A_x, A_y), \]

Budget constraint:
\[ p_x X + p_y Y = I \]

Time constraint:
\[ t_{ax} A_x + t_{ay} A_y + H = T, H = \text{time worked}, \ I = wH \]

Full income budget constraint
\[ p_x X + p_y Y + w t_{ax} A_x + w t_{ay} A_y = wT = S = \text{full income} \]
F.O.C.

\[ U_i = \mu p_i, \quad i=X,Y \]

Conditions for AX and AY are less clear

If consumers can avoid persuasion then

\[ U_{ax} - \mu wt_{ax} \geq 0, \quad \text{and} \quad U_{ay} - \mu wt_{ay} \geq 0 \]

Persuaders benefit by shifting the demand for X and Y
What Does Economics Tell Us About Persuasion

• Should we be able to persuade rational individuals? – Yes
• What types of persuasion should we expect to see?
• Why compete on persuasion rather than price?
The Simple Complements View

• More $A_X$ shifts the demand for $X$
• Gain to providing more $A_X$ can be written in two ways
  • $dX/dA_X(P_X-C)$ (i.e. hold $P_X$ constant)
  • $X^*dP_X/dA_X$ (i.e. hold $X$ constant)

• These seem to have conflicting implications regarding the importance of $P>MC$
• Becker & Murphy - Advertising As a Good (or Bad - examine this case
What does it take to persuade?
Key Elements

• Providers benefit from changing consumer choice
• Must compensate consumers if consumers don’t like efforts to persuade (e.g. TV programming, news in newspapers)
• Resistance to changing quantities will be small
• Resistance to changing price will be larger
The Landscape

• Consumer will choose to be uniformed in equilibrium
• Can pay consumers for the right to persuade them (maybe very little)
• Persuasion should be part of the equilibrium
• What institutions should we expect to see?
  • Institutions that affect consumer choices
  • Compensate consumers in some way
Implications

• When will changes in consumption benefit sellers?
  • Price>MC
  • Contractual problems (parents/kids)

• Further implications
  • Persuasion may help to solve other problems
  • Can have net benefits form the ability to be persuaded
Further Thoughts

• Why persuasion and not prohibitions?
• Why persuasion rather than competition on price?
• Vertical implications – producers will often disagree with retailers on persuasion.
  • Benefits will often differ
  • Retailers may be better situated to do it
  • Gains to trade and contracting
  • Often will enhance competition between producers

• Networks and platforms