

Advertising and Product Quality in Posted-Offer Experiments

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Economic Inquiry, January 1990, XXVIII(1), 39-56.

Abstract: Sellers selected both price and quality but buyers had limited information about these choices in the experiments reported here. Market efficiency was high under full information with truthful advertising of prices and qualities, but was much lower with no advertising of price and quality. Efficiency did not improve when sellers were permitted to advertise price, but not quality, and in half of these experiments "lemons" outcomes occurred. Although the range of outcomes is great, it cannot be claimed that price advertising improves efficiency when quality is unknown.