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Interfaces between Marketing and Economics: An Overview

Marketing's Links with Other Disciplines

Marketing, in its evolution as a science, has drawn primarily on disciplines such as psychology, statistics, and operations research. Psychology has provided the basis for various consumer-behavior models such as the multiattribute model of attitude formation (Fishbein 1967, pp. 389–99), models of consumer-information processing (Bettman 1979), and the hierarchy-of-effects model relating advertising to attitude change (Ray et al. 1973). Statistical tools have been widely used to estimate relationships such as the sales response to advertising (see, e.g., Parsons and Schultz [1976] for a review of the econometric research on advertising and Aaker [1971] for a collection of papers dealing with the applications of multivariate statistics to a wide variety of marketing problems). Finally, operations research has been useful in determining optimal advertising budgets, media selection, and salesmen allocation (see Montgomery [1971], Fitzroy [1976], and Naert and Leeflang [1978] for examples of the applications of operations research to marketing problems).

Marketing and Economics

While economic theory provides an important theoretical underpinning for many of the principles of marketing (see, e.g., Dorfman and Steiner 1954), economics has had a relatively minor impact on analytic marketing studies. This lack of interaction between the two disciplines is surprising since marketers and economists are often interested in similar problems. Table 1 provides a brief overview of some of the problems popular in the marketing literature and the analogous topics popular in the economics literature. The literature is categorized into the broad areas of advertising, pricing, product policy, distribution, and sales force. Each topic is accompanied by some illustrative references.

While the titles of the topics in the two disciplines of marketing and economics are often similar, the methodology, content, and focus of the two sets of literature are widely different.

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Table 1 **Research Topics in Marketing and Economics**

Marketing Literature	Economics Literature
Advertising	
Measurement of advertising effectiveness (Bass 1969*b*; Clarke 1976; Little 1979) Determination of optimal advertising budgets (Little 1966; Horsky 1977) Media selection (Little and Lodish 1969) Advertising copy and message design (Gross 1972; Wright and Barbour 1975)	Advertising and the consumer's demand for information (Stigler 1961; Nelson 1970, 1974; Stigler and Becker 1977; Rosen 1978) Advertising and competition (Telser 1964; Comanor and Wilson 1967, 1979) Advertising budgeting (Nerlove and Arrow 1962; Gould 1970)
Pricing	
New-product pricing, product line pricing, price discounts, etc. (Monroe and Della Bitta 1978) Dealing (Frank and Massy 1965; Blattberg et al. 1978; Blattberg et al. 1979) Sales response to price and other marketing mix variables (Lambin 1970, 1976; Little 1975)	Price discrimination (Robinson 1933, pp. 179–208) Tying arrangements (Bowman 1957; Burstein 1960*a*, 1960*b*) Bundling (Stigler 1963, pp. 152–57; Adams and Yellen 1976) Multipart pricing (Oi 1971; Murphy 1977) Peak-load pricing (Williamson 1966; Symposium on Peak Load Pricing 1976) New-product pricing (Gabor and Granger 1965) Theory and estimation of demand functions (Stone 1954; Theil 1976) Interaction of price and advertising (Benham 1972)
Product Policy	
Evaluation of new product concepts (Green and Wind 1973; Shocker and Srinivasan 1979) Pretest-market models (Silk and Urban 1978) Test-market models (Parfitt and Collins 1968; Blattberg and Golanty 1978) Models of new-product diffusion (Bass 1969*a*; Robinson and Lakhani 1975; Mahajan and Muller 1979)	Product quality (Baumol 1967; Griliches 1971) Product differentiation (Spence 1976) Innovation and technological change (Griliches 1957; Mansfield 1961, 1968)
Distribution	
Vertical market structures (Baligh and Richartz 1967; Naert 1971) Warehouse location (Kuehn and Hamburger 1963) Store location (Huff 1964; Hlavac and Little 1966)	Vertical integration (Vernon and Graham 1971; Warren-Boulton 1974) Resale price maintenance (Telser 1960) Franchising (Caves and Murphy 1976; Rubin 1978)
Sales Force	
Optimal sales force size (Beswick 1977) Sales territory design (Hess and Samuels 1971; Shanker, Turner, and Zoltners 1975) Sales force compensation (Farley 1964; Davis and Farley 1971) Sales force allocation (Lodish 1971)	Managerial incentives and compensation (Jensen and Meckling 1976)

1. Methodology: Economists are generally careful about developing utility-maximizing models of consumer behavior and profit-maximizing models of firm behavior and then studying the equilibrium that results from the interaction of firms and consumers (see Rosen [1974] for a typical example of this approach). Marketers, on the other hand, tend to be less formal in the development of models of firm and consumer behavior. They usually emphasize the consumer side of the market and treat the firm side in a cursory manner. In addition, they very rarely study market equilibrium issues carefully.

2. Variables considered: Economists have usually stressed the effects of price (and often excluded nonprice variables), while marketers have concentrated on nonprice variables such as advertising, product quality, and the sales force.

3. Research focus: Economists have typically been interested in understanding consumer and firm behavior in the context of developing public policy implications. Marketers, however, have mostly concentrated on issues from the firm's viewpoint. For example, economists have been concerned with the optimal level of product differentiation from a social welfare viewpoint, while marketers have tried to determine the optimal number of products that a firm should offer in order to maximize its profits.

An Emerging Focus

This historical separation of the two disciplines is likely to end since economists are increasingly concerning themselves with a wide range of marketing problems, while marketers are beginning to use the theoretical framework offered by economists.

An important milestone was the development of the "new" theories of consumer behavior by economists. The theories developed by Becker (Becker 1965; Michael and Becker 1973), Lancaster (1971), and Rosen (1974) are starting to have a significant impact on marketing research. Marketers find these theories valuable because they deal explicitly with issues such as product characteristics and the use of time.

Explicit consideration of product characteristics has important implications for new product design and the design of advertising copy. A vast literature dealing with product characteristics had developed independently in marketing (see Wilkie and Pessemier [1973] and Lutz and Bettman [1977] for reviews). However, the marketing literature typically did not incorporate the effects of prices and incomes into this framework in an appropriate manner. This gap was essentially filled by the Lancaster (1971) and Rosen (1974) models. Using the framework provided by the economists, marketers are starting to develop interesting applications of the multiattribute choice model. The papers by

Ryans (1974) and Ratchford (1979) are good examples of applications embodying the economists' choice framework.

Becker's (1965) household production model on the use of time and goods to produce commodities has also been useful for marketers. The marketing literature on the use of time did not clearly indicate how time could be integrated with prices and incomes to produce choices (see Jacoby, Szybillo, and Berning [1976] for a review of this literature). Since Becker's model deals with this issue explicitly, marketers are increasingly recognizing the potential value of his approach. The household production model has been used by Blattberg et al. (1978) to identify demographic characteristics of deal-oriented households and by Verma (this issue) to specify theoretically a sales-advertising function. Other examples of the use of approaches from economics by marketing researchers consist of Dolan (1978), Doraiswamy, McGuire, and Staelin (1979), Bass (this issue), and Little and Shapiro (this issue).

The increased effort by economists to deal with complex marketing problems is also evident. Consider, for example, the following recent research by economists: Porter (1976), Butters (1977), Salop and Stiglitz (1977), Nickell and Metcalf (1978), Schmalensee (1978), Hausman (1979), Lancaster (1979), Theil (1979), Gould (this issue), McFadden (this issue), Wilde (this issue), and Klein and Leffler (in press). Apparently, economists are realizing the importance of the problems that have traditionally interested marketing researchers. It is also becoming clear that the basic analysis done in economics can be applied to such problems. However, the complexity of the problems in the marketing area seems to also call for an expansion of economic theory for their solution.

We expect that the trends discussed above will continue. More economists will work on marketing problems, while marketers will employ the power of economic analysis to a greater extent in their research. Such a cross-fertilization of ideas and efforts will undoubtedly strengthen the scientific foundations of marketing.

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