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## Endorsement Advertising and Legal Liability

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### Abstract

This paper investigates whether the legal liability for false or misleading endorsement advertising should extend beyond firms to endorsers. We propose a theoretical model based upon the supposition that a firm promotes his product by employing a celebrity endorser to declare publicly his or her valuation for its quality. We show the government's intervention is not necessary if the surplus created by the high-quality firm is sufficiently high and if the consumer valuation on the high-quality product is also sufficiently high. By contrast, when the surplus created by the high-quality firm is relatively low, there exist multiple false or misleading endorsements, and even worse, the high-quality firm will exit the market if the unit cost of producing the high-quality goods is very high. Therefore, in this situation the government should impose the legal liability on endorsers to improve efficiency.

**Keywords:** Endorsement Advertising, False or Misleading Advertisements, Celebrity Endorsers, Product Quality, Signaling.

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