

### **A Study on the False Advertising of TV Shopping**

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#### Abstract

The cases about the false advertising of TV shopping, which violated the Fair Trade Act and had been punished by the Fair Trade Commission (FTC), amounted to 79. In spite of the large penalties and the legal risk of more punishment, some TV shopping businesses still advertise with many false commercials, which are unfair business practices, to attract more customers again and make big profits. There are some information asymmetry between the customers and the TV shopping businesses, which will bring adverse selection and moral risk. The false advertising will affect the consumer's choice and decision, and that will damage consumers if their shopping were based on the false commercials. On the contrary, using the false advertising to seize consumer's attentions and to excite their interests and desire, TV shopping businesses earn profits from the consumers. The unbalance situation of both parties makes the market failure, so it is necessary to control the content of TV shopping commercial by the government.

Under the condition of the advertising marginal cost equals to its marginal benefit, TV shopping businesses pursue and reach the maximum profit goal. At the viewpoint of legal and economic analysis, the government (FTC) carries out the legal restrain on the advertising and that will reduce the amount of false advertising. In fact, the principle of

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estimated advertising income should higher than the related cost is the policy-making basis for TV shopping businesses broadcast the shopping advertising.

For the development of the TV shopping industry, FTC adopts the modest and restrained punishment pattern regarding the TV shopping false advertising. FTC only places the legal punishments, such as “stops the illegal false advertising behavior immediately” and “the penalty for false advertising”, on the violators. The legal punishments bring some limited menace to TV shopping businesses, but cannot eliminate the broadcasting of false advertising from TV shopping businesses in the future. FTC should take the new punitive measures into consideration, such as “the broadcasting of correction advertising” or “the control over the false advertising with counts”. Facing the false advertising question, the TV shopping businesses should recognize the false advertising will damage the consumers and TV shopping industry. The observing discipline and obeying the law autonomously by every TV shopping business can reduce the negative impact of illegal false TV shopping bussadvertising, and which will benefit the individual TV shopping entrepreneur and the overall TV shopping industry development.

Keywords: TV Shopping, False Advertising, Legal And Economic Analysis, Information Asymmetry, Cost Benefit Analysis.