

## **The Relationship between Advertising Information and Article 18 of the Fair Trade Act**

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### Abstract

From the perspective of the Fair Trade Act, Resale Price Maintenance (RPM) not only deprives customers of the right to purchase products at a low price, but has also become a form of rewarding inefficient retailers. RPM is regarded illegal per se in Taiwan, and has no applicable exemptions, which is different from the laws in many other countries. This research proposes a perspective based on the rational expectations model, and suggests that, based on the aspect of a price's function in terms of delivering information, the Fair Trade Act does not need to set an exemption clause for the RPM. When consumers use retail prices as a tool for judging product quality, manufacturers hope that retail prices will be able to stably deliver quality information. Since there is keen price competition among retailers, which causes fluctuations in retail prices, retail prices cannot be used as sufficient statistics for product quality. Consequently, manufacturers use RPM to enable the retail prices to efficiently reflect the quality information; however, it still fails to rule out the application of Article 18 of the Fair Trade Act. The rational expectations model shows that when RPM is prohibited, manufacturers may increase their advertising expenditures to lower the conditional risks perceived by consumers in regard to the product's quality, thus resulting in advertising having a substitution effect on RPM. As a result, references could be provided with regard to the determination and judgment of RPM on the Fair Trade Act, and the economic implications of the use of marketing tools in business management and the price rigidity in the economic field could also be provided.

Key words: Resale Price Maintenance, Advertising, Rational Expectations Model.

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