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The Economics of Reputational Information

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Reputational Information

- Reputational information = information about an actor's past performance that helps a decision-maker predict the actor's future performance
- Examples:

Unmediated	Mediated
<ul style="list-style-type: none">• Word of mouth• Recommendation letters and references• Job evaluations and student evaluations	<ul style="list-style-type: none">• Credit scores• Investment ratings (bonds, mutual funds)• GPAs• Consumer product reviews and ratings (Amazon star ratings; Ratemyprofessor.com; Avvo; Ripoff Report; BBB)• Voting systems? PageRank, Digg

Undersupply Concern

- The market's invisible hand is predicated on consumers rewarding good producers and punishing poor ones
 - Reputational information = invisible hand of the invisible hand
- Concern: every consumer has private information about their marketplace experiences
 - Costs: time, vendor retribution, norms against public criticism, privacy, legal risks
 - Benefits: usually only psychic rewards (pulls towards love it or hate it)
- But consumers communicate that private information into the marketplace through their decisions
- But...
 - Most marketplace decisions are private information
 - Most aggregations of marketplace behavior aren't readily available
- Possible solutions
 - Reduce legal disincentives for consumers to share their marketplace experiences
 - Make consumer marketplace decisions public information
 - Government funding of reputational information production