Economics of Reputational Information

Eric Goldman

Santa Clara University School of Law

egoldman@gmail.com ● www.ericgoldman.org

GEORGE
MASON
UNIVERSITY

Microsoft®

What is Reputational Information?

- "Information about an actor's past performance that helps predict the actor's future ability to perform or to satisfy the decision-maker's preferences"

- Examples:

Unmediated	Mediated
• Word of mouth • Recommendation letters/job references	• Credit scores • Investment ratings • Consumer product reviews/ ratings

Why Reputational Information Matters

- The market's invisible hand is predicated on consumers rewarding good producers and punishing poor ones

  - Reputational information = invisible hand of the invisible hand

Reputational Information Regulation

Stimulate Supply	Suppress Supply
• Immunizations (ex: 47 USC 230) • Mandatory disclosure • Whistleblower laws	• Publication liability • Privacy laws • Mandatory non-disclosure
Stimulate Demand • Mandatory consideration	Suppress Demand • Anti-discrimination laws

Two Puzzles

- Heterogeneity of reputational systems
  - Why?
  - Tuning regulatory dial/relying on third-order reputation
- Systematic undersupply problem?
  - Most reputational information is non-public
  - Social net benefit of disclosure > private net benefit
  - But how much reputational info does the market require?