Santa Clara University

The Economics of Reputational Information

Prof. Eric Goldman

Director, High Tech Law Institute

http://www.ericgoldman.org • http://hightechlaw.scu.edu

egoldman@gmail.com

Santa Clara
University

What is 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
• Word of mouth • Recommendation letters and references • Job evaluations and student evaluations	• Credit scores • Investment ratings (bonds, mutual funds) • GPAs • Product reviews and ratings (Amazon star ratings; Ratemyprofessor.com; Avvo; Ripoff Report; BBB) • Voting systems? PageRank, Digg

Santa Clara University

Why Study Reputational Information?

- ## The market's invisible hand is predicated on consumers rewarding good producers and punishing poor ones
  - Reputational information = invisible hand of the invisible hand

- ## Hypotheses
  - #1: Anomalies in reputational information supply and demand hinders invisible hand
  - #2: Inconsistent regulation of reputational information should be examined for unwarranted dichotomies

Santa Clara University

Undersupply of Reputational Information?

- **Concern: people have first-hand reputational information that remains non-public information**

- **Why?**
  - Costs: time, vendor retribution, norms against public criticism, privacy, legal risks
  - Benefits: usually only psychic rewards (pulls towards love it or hate it)

- **Consequence: invisible hand lacks enough information to work properly?**

- **Possible Solutions:**
  - Make consumer adoptions/defections public information
  - Increase channels for anonymous dissemination of reputational information
  - Recalibrate legal consequences of sharing reputational information
    - Make it harder for plaintiffs
    - Give potential defendants more tools to counterattack bogus threats
    - Protect intermediaries facilitating production of reputational information
  - Government funding of reputational information production

Santa Clara
University