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The Economics of Reputational Information

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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
<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

Unmediated Reputation

- **Unmediated reputation**
 - Idiosyncratic
 - Often based on small data sets
 - High transaction costs to find/transmit and assess
 - Hard to police against shills

Mediated Reputation

- **Strengths**

- Wisdom of the crowds/opinion “portfolio”
- Editorial filtering => manage infoglut
- Marketplace incentives to manage database

- **Potential Weaknesses**

- Users may misinterpret data
 - Faux precision/margin of error
 - Mischaracterization of data outputs
- Outputs may be one-size-fits-all (insufficiently granular)
- Editorial filtering/algorithms may be opaque
- Data sources may not be credible (or credibility too hard to assess)
 - Risks of user attacks, shilling and gaming
- Mediator may move to pay-for-play
- Error correction mechanisms can distort database

- **Which weaknesses can be left to market solutions, and which deserve regulatory intervention?**