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:

<table>
<thead>
<tr>
<th>Unmediated</th>
<th>Mediated</th>
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<tbody>
<tr>
<td>Word of mouth</td>
<td>Credit scores</td>
</tr>
<tr>
<td>Recommendation letters and references</td>
<td>Investment ratings (bonds, mutual funds)</td>
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<tr>
<td>Job evaluations and student evaluations</td>
<td>GPAs</td>
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<tr>
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<td>Product reviews and ratings (Amazon star ratings; Ratemyprofessor.com; Avvo; Ripoff Report; BBB)</td>
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<tr>
<td></td>
<td>Voting systems?  PageRank, Digg</td>
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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
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