

Review Manipulation by an Intermediary*

Toshihiko Hirasawa[†]

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Abstract

We investigate the quality of reviews provided by a monopolistic intermediary. An intermediary is said to reduce asymmetric information by providing reviews of sellers. However, the informativeness of reviews is doubtful due to bribes from sellers. We make a model in which an intermediary manipulates a review of a seller once the seller pays bribes. We show that an informative equilibrium still exists even with review manipulation, and in such a case, sophisticated customers do not follow reviews. Also, we find that the condition for an informative equilibrium depends on the fraction of naive customers. In addition, we also consider a case where customers can observe the action of sellers. We show that reviews become completely uninformative. This result implies that a policy that forces the intermediary to disclose the existence of the contract rather does not benefit customers.

Keywords: information intermediary, product reviews, strategic manipulation, naive customers

JEL classification: D21, D82, D83, L15, L86, M37

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[†]Graduate School of Economics, the University of Tokyo, 7-3-1, Hongo, Bunkyo-ku, Tokyo, 113-0033, Japan.
Email: toshi224hirasawa@gmail.com