

Informing Buyers vs. Regulators

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Abstract

Both the market and the regulator have incomplete information regarding the products' characteristics, but non-governmental organizations or activists often have expertise or motivation to investigate and acquire such information. Negative signals about a product's environmental externalities, for example, may either persuade a regulator to regulate the industry, or buyers to switch to other products instead. We show that the latter strategy, referred to as (informational) boycotts, is preferred and chosen when the industry in question is very competitive, while informational lobbying is preferred otherwise. Since there may be multiple equilibria, the regulator may want to commit to an open-door policy to facilitate regulation. This is preferred less often, we show, when one takes into account that also the market structure itself is endogenous.

Key words: Private politics, activism, informational lobbying, cheap talk, multiple audiences, hard vs. soft information, information acquisition,

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