Attraction versus Persuasion

Prof. Pak Hung Au

Abstract: We consider a model of oligopolistic competition in a market with search frictions, in which competing firms with products of unknown quality advertise how much information a consumer's visit will glean. We characterize the unique symmetric equilibrium of this game, which, due to the countervailing incentives of attraction and persuasion, generates a payoff function for each firm that is linear in the firm's realized effective value. If the expected quality of the products is sufficiently high (or competition is sufficiently fierce), this corresponds to full information--search frictions beget the first-best level of information provision. If not, this corresponds to information dispersion--firms randomize over signals. If the attraction incentive is absent (due to hidden information or costless search), firms reveal less information and information dispersion does not arise.