Yiquan Gu (University of Liverpool)

“Curbing Obfuscation: Empower Consumers or Regulate Firms?”

Abstract

This paper develops a market model where consumers refrain from buying products that they are unable to understand and a firm can influence the probability of a consumer understanding its offer. In equilibrium, firms artificially increase product complexity, and firms that offer more transparent products choose on average higher prices. We study two sets of public policies. We show that consumer side policies may have the unintended consequence of encouraging obfuscation while firm side policies are always effective in curbing obfuscation. Interestingly, a consumer side policy can even harm consumers when it protects consumers so much that it greatly increases the marginal effectiveness of obfuscation. Policies on both sides can either increase or decrease social welfare depending on the marginal effectiveness and the marginal cost of obfuscation. Main insights identified hold in both asymmetric and symmetric obfuscation equilibria.