Buying Reputation as a Signal of Quality: Evidence from an Online Marketplace

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Abstract: Reputation is critical to foster trust in online marketplaces, yet leaving feedback is a public good that can be under-provided unless buyers are rewarded for it. Signaling theory implies that only high quality sellers would reward buyers for truthful feedback. We explore this scope for signaling using Taobao's "reward-for-feedback" mechanism and find that items with rewards generate sales that are nearly 30% higher and are sold by higher quality sellers. The market design implication is that marketplaces can benefit from allowing sellers to use rewards to build reputations and signal their high quality in the process.

Bio: Lingfang(Ivy) Li is an Associate Professor of Economics in School of Management, Fudan University. She received her Ph. D. in Economics at University of California, Irvine (2007). She worked as an Economics Assistant Professor in College of Business, University of Louisville. She also worked as an Associate Professor and the Director of Center for Mechanism Design and Information Economics in Shanghai University of Finance and Economics. Her research interests include information economics, industrial organization, applied game theory, and behavioral economics. Her papers have been published in Management Science, Journal of Economics and Management Strategy, Decision Support Systems, etc. She currently serves as an associate editor for Decision Support Systems. She has got several Chinese National Science Foundation (CNSF) projects, and be a Huoshui scholar for Alibaba group for several years. She has also rewarded “Pujiang Scholar” and Excellent Young Scholarship of CNSF.