

Department of Information and Systems Management  
School of Business and Management  
Hong Kong University of Science and Technology

Seminar Announcement

***Mechanism Design for "Free" but "No Free Disposal" Services: The Economics of Personalization under Privacy Concerns***

by

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**Date: 22 October 2007 (Monday)**

**Time: 11:00 am - 12:00 noon**

**Venue: Room 3399, L17/18**

~~~~~ All interested are welcome ~~~~~

## **Abstract**

Online personalization services belong to a class of economic goods with "no-free-disposal" (NFD) property, where due to privacy concerns more services is not always preferred to less. We examine vendor strategies for a market with heterogeneous consumers and where the vendor can also "buy" information through coupons or side-payments. Counter to intuition our results suggest that the market is covered in all cases when a variable services-only contract is offered and in some cases (vendor has high marginal value for information) when a variable services-coupon strategy is pursued. Interestingly in the former case consumer surplus is maximized even if the vendor is a monopolist and the market is never covered under fixed services strategy. However, under both fixed services-only and services-coupon strategies the vendor serves the same subset of the market even if producer, consumer and social welfare are all higher with coupons. When the market is served by a vendor with a not-so-high marginal value for information, the optimal strategy is a bunched-solution. This solution is superior to all other contracts such that convenience-seekers receive a services-coupon menu, intermediate types get a fixed-services contract while others (with the highest privacy costs in the market) are not served. Interestingly, our results recommend that it is optimal for the vendor to offer coupons to consumers who value personalization over privacy; this is counter to the commonly-held view that couponing is effective as a tool to attract privacy-seekers in the market.

## **Biography**

Prof. Ramnath K. Chellappa is an Associate Professor of Decision and Information Analysis at the Goizueta Business School, Emory University. He previously served on the faculty of Marshall School of Business, University of Southern California from 1997 - 2005, and received his PhD from the University of Texas at Austin. Prof. Chellappa's expertise is in the field of electronic markets, digital goods pricing and economics of information security and privacy. His research on piracy has been widely published in leading journals and conferences. His work on information privacy in online transactions received the Best Paper Award at *INFORMS-CIST 2003*. Prof. Chellappa works closely with the music industry on topics related to forecasting, piracy, supply chain management and iTunes/digital sales. He currently teaches in the MBA and PhD programs at Emory and he recently designed and taught a course on IT and medicine in the Medical Management Program at USC.