

Manipulation of Cursed Beliefs in Online Reviews*

Ludmila Matysková[†]

Jan Šípek[†]

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Abstract

Consumer reviews may have perverse effects, including delays of adoption in new products of unknown quality when consumers are boundedly rational. When consumers fail to take into account that past reviewers self-select to purchases, a monopolist may manipulate the posterior beliefs of consumers who observe the reviews, because the product price determines the self-selection bias. The monopolist will charge a relatively high price because the positive selection of the early adopters increases the quality reported in the reviews.

Key Words: Cursed Equilibrium, Online Social Learning, Two-Sided Learning

JEL classification: D42, D82, D83, L15

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[†]CERGE-EI, a joint workplace of Charles University and the Economics Institute of the Czech Academy of Sciences, Politických vězňů 7, 111 21 Prague, Czech Republic;
email: lmatysko@cerge-ei.cz (Matysková)