

SEMINAR

Price Signaling and Reputation Building: Evidence from a Service Platform

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**Venue: WYL314, 3/F, Dorothy Y. L. Wong Building,
Lingnan University**



ABSTRACT:

To build a reputation on online platforms, new firms need to accumulate reviews through sales and consider the corresponding pricing strategy. We construct a dynamic model with both price signaling and a review-based reputation system. A high-quality firm can signal its unobserved quality by setting a lower introductory price than that of a low-quality firm because the high-quality firm benefits more from accumulating reviews in early periods. Using data from Zaihang, a service platform, we find empirical evidence that experts with high unobserved ability indeed adopt low introductory prices. We use an expert's performance on another platform as an instrument for the expert's ability to provide evidence for a causal relationship. The price and sales dynamics in the data are also consistent with the model predictions. The platform can accelerate quality revelation by facilitating price signaling. To do so, platforms could make price comparison easier and provide training to new firms about signaling.

BIOGRAPHY:

Yangguang received his Ph.D. in Economics from University of Washington in 2016 and joined HKUST afterward. His research areas are Industrial Organization and applied Microeconomics. The theme of his research is combining economic model and structural econometrics to study policy-oriented topics. His current research projects tackle problems in procurement, public resource allocation, corruption, and market design.

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