Raising the Bar: Certification Thresholds and Market Outcomes

Xiang Huiy, Maryam Saeediz, Giancarlo Spagnolox, Steve Tadelis

Discussant: Sarit Markovich
Question & Analysis

- Questions: what is the effect of a more stringent certification criteria on the incentives to enter and the quality distribution of sellers in the market.
- Simple theoretical model
- Empirical analysis: natural experiment on a change implemented by eBay
Simple story

- The effect of an increase in certification criteria assuming no entry/exit
  - Increases the average quality of certified seller
  - Increases the average quality of non-certified sellers (as now includes also higher quality sellers)
  - So, prices of both types should go up
Entry

- Seller’s decision
  - Enter: Yes? No?
  - If yes, at what quality
- Model assumes that some sellers are “born” of a certain type and can only choose whether to enter or not
- “Strategic” sellers make both decisions
- Since prices increase => More H-type and L-type sellers find it profitable to enter
- Certification is more costly in terms of effort => less “strategic” entry
More complex story

- Changes in certification criteria have several effects
  - Reduce asymmetric information at the high end and increases asymmetric information at the low end
  - Intensifies vertical differentiation
  - Increases entry/fixed costs for high quality merchants
- Hard to empirically distinguish between the different effects
Distinguishing between the different effects

• Reduction in asymmetric information makes it easier to sell more complex products:
  • Can look at changes/differences in the complexity of products sold by the different types of sellers

• Vertical differentiation: look at changes in average quality of good-seller combination
  • Perceived quality of products on eBay and other electronic platforms have two components:
    • Actual quality of the good
    • Seller quality
  • Buyers combine the two in their assessment
  • An increase in the perceived quality of sellers increases the perceived quality of the product
Other Suggestions/Comments

• Different measures of quality that incorporate
  • Number of deals (proxy for how long the seller has been in the market)

• Incorporate the effect of competition

• Better account for endogeneity