Discussion of \Certification, Reputation and Entry: An Empirical Analysis" by Hui, Saeedi, Spagnolo and Tadelis

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Motivation

This

What I like

Motivation:

- Reputation mechanisms important as these markets continue to grow.
- Clear policy implications.
- Think about LR e ects of introducing institution.

Data:

- Proprietary data from eBay.
- Utilize a policy change.

Limitations

Model:

- Are there situations where entry would decrease? Quality decrease?
- What is the role of market power?
- Exit an issue?

Results:

- Can we say something about concentration?
- E ect on consumers?
- eBay revenue? What are eBay's incentives?

Empirical Strategy:

- I wonder about the exogeneity of the instrument.

Exposure

In order to calculate the exposure of a given category, run the following regression:

$$\text{ShareBadged}_{ct} = \beta_c Policy + \eta_c + \alpha_c t + \ _{ct}$$

- Use $\hat{\beta}_c = E_c$
- Problem: this is an ex post measure of exposure.
  - ShareBadged_{ct} is an equilibrium outcome that is a function of Y_{ct}.
- Example: if the policy leads to entry in category c, then that is going to a ect the share of sellers who are badged.

$$\Delta\text{ShareBadged}_c = \frac{Badged_{ct}}{\text{Incumbent}_{ct-1} + \text{Entry}} - \frac{Badged_{ct-1}}{\text{Incumbent}_{ct-1}}$$

- Result: there is a mechanical relationship between treatment and outcome (more entry ! lower % badged).

Suggestion(s)

Fortunately, I think this can be solved without too much trouble. Suggestions:

1. Use a measure of ex ante exposure to a given category.
    - On the day the policy was enacted, how many sellers would have received the new badge.
2. Determine categories/goods that would be a ected ex ante and use this as control group
    - Categories that have

Other Suggestions

Estimate other e ects of policy:

- Other signals of quality (e.g., photographs).
- Types of products within a category (e.g., name brand v knock o , new v. used).
- Overall price levels.
- Concentration: do powerful sellers become more powerful?

Is Figure 5 (quality result) showing a mechanical relationship?

- If EPP decreased (increased) after the policy, then those sellers are likely to have a low (high) EPP.
- Suggestion: estimate DiD model for some measure of quality dispersion.

Other Random Comments/Questions

- What about dynamic reputation building (through lower prices, e.g.)?
- Do you consider the first stage estimates when you calculate standard errors?
- \...a more stringent badging requirement causes the average quality of both badged and unbadged sellers to increase..." is this always true? It seems like the marginal benefit from being a badged seller may decrease under some circumstances.
- What about exit?
- Why don't incumbents change their quality? Is their a theoretical justification for this?
- Does eBay use this mechanism as a way to align incentives (revenue generation)?
- Why not juse absolute value of $\hat{\beta}$?
- Can we think of you exercise as a test of asymmetric information?