

# consumer welfare and regulation of social media

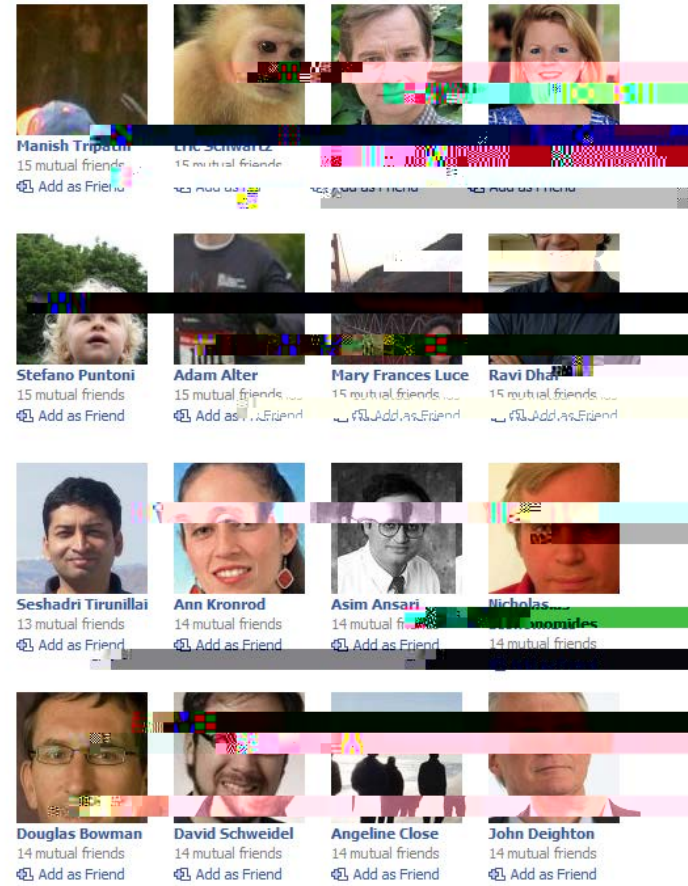
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# what is social media?

Definition:  
The medium are the consumers

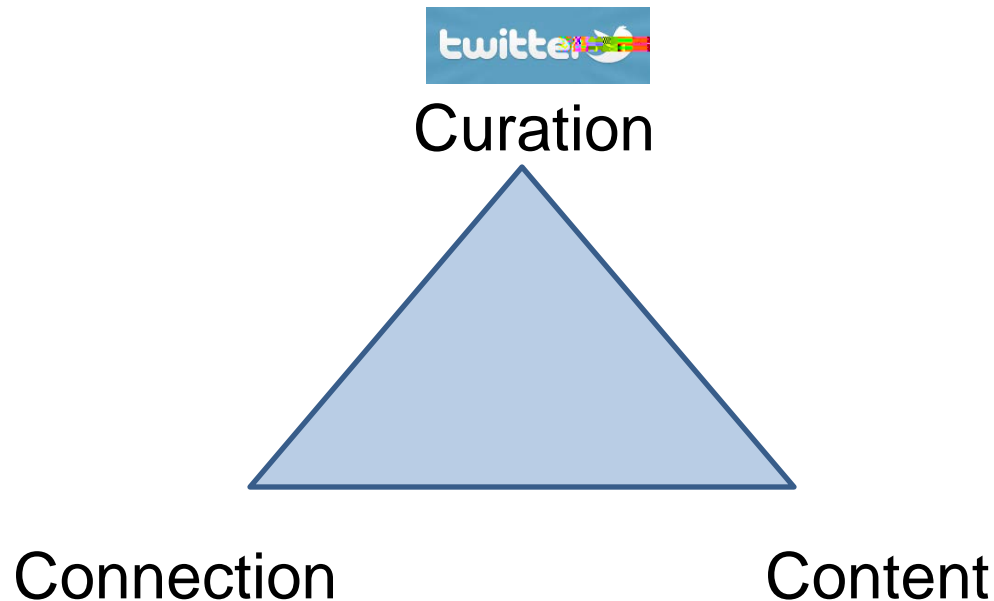
## Platforms

1. Facebook
2. Blogs
3. Twitter
4. Instagram
5. Snapchat



question: so...how can a firm manage social media?

# why do consumers use social media?



People use different platforms for different purposes—  
same people but different uses

# why regulate?

- 1) firms' management of social interactions may have a negative impact on consumer welfare
- 2) negative externalities when social media is misused (incitement, bullying, etc)



# the effect of “promotional chat”: theoretical results (Mayzlin 2006)

- Due to the anonymity of online forums, firms can impersonate consumers to promote their products (or badmouth the competition)
- In equilibrium, the inferior product will engage in more fakery
- Promotional chat add noise to the signal of word of mouth but does not destroy

# the effect of “promotional reviews”: empirical results

(Mayzlin, Dover, Chevalier 2014)

The paper uses variation in Tripadvisor and Expedia identity authentication policies and hotel organizational structure to examine manufactured reviews



# misuse of social media

- 1) homophily in social networks and the amplification effect of social media may imply that more extreme content propagates widely
- 2) The wide use and misuse of social media by minors (cyberbullying, sexting), and the fact that all communication leaves an electronic footprint may have led to a more negative