

INFORMATION REMEDIES FOR CONSUMER PROTECTION

Howard Beales *

Richard

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Effects of Information Remedies

Given a market failure, a number of alternative market intervention strategies may be designed. Remedies may function to provide the flow of useful, truthful information and thus eliminate the cause of the problem, or they may act to offset or eliminate the effects of the problems on the relevant product and information markets. In general, information strategies are more compatible with incentives, less rigid, and do not require regulators to compromise diverse consumer preferences to a single standard.

Compatibility with sellers' incentives increases the likelihood that the market will make use of the information. This is especially true since the major benefits of an information program come from the market's indirect response. As firms compete for informed consumers, products are likely to be improved along the dimension disclosed. Other purchasers also benefit even if they do not use the information directly. On the other hand, if the information program is not compatible with sellers' incentives, if it is not a useful sales tool, then the market is less likely to respond. The need for communication is perhaps especially important in the case of

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incentivæs. Substantiation regulates onl objective claims. Because it is costly to äeve o substantiation, firms may simply avoid ob=ective claims to escape the costs. Thus, if firms can shift to e ually UZ[TNw_~T~f non-verifiable, subjective claims, truthful factual claims ill be deterred.

D'f Ensuring Complete Information: All information is inherently incomplete; nevertheless, it is

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B. Products: This remedy eliminates the need for information by making all products identical. If there are no choices, then there is little need for information about the options. If a specific informational deficiency leads to a particular product problem, it may be possible to correct the problem directly. Similarly, if all consumers, given full information, would make the same decision, imposing that decision on the market may be more efficient than forcing all consumers to bear the costs of gathering and processing the information. Of course, if consumers preferences differ over the relevant attribute, a serious tradeoff must be balanced.

Regulating Prices: This may be a solution to inadequate price information. By imposing uniform prices, the need to search for the lowest price is eliminated. If costs differ across firms, however, this solution will also be inefficient. Price regulations may also encourage the flow of information by shifting competition from price to information services.

