

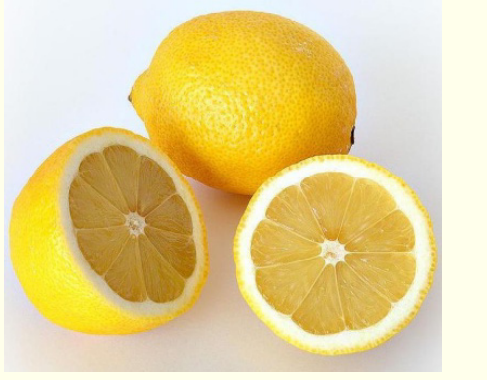
Certification Intermediaries and the alternatives

Can certification help with information asymmetry?

- Does certification matter to user? (signaling game)
- Will bad products be more eager to be certified? (adverse selection)
- Will quality defect after certification? (moral hazard)

The Market for Lemons

No incentive for high quality production if users cannot tell the good & bad apart



Plus

- Middlemen could attenuate moral hazard problem by policing product quality (Biglaiser & Friedman 1994)
- If quality is endogenous, the existence of a certification intermediary will improve quality
 - although quality is lower than when full information is available (Albano & Lizzeri 2001)
- If quality is exogenously predetermined, an intermediary will improve welfare by not certifying unsafe products (Lizzeri 1999)
- If the expected loss is moderate, certification is socially optimal compared to mandatory regulation and the caveat-emptor approach (Tang et.al. 2005)

Minus

- Monopolistic intermediary will be keen to manipulate its disclosure strategy
 - Optimal to reveal minimal amount of information necessary to induce trade (Lizzeri 1999)
- If criteria are lenient, costs will be indifferent
 - Separating equilibrium can diminish and thus not providing a reliable signal
- Empirical evidence: TRUSTe-certified websites were less trustworthy than those without (Edelman 2006)

Considerations for further analysis

- Low user awareness
- Technology intermediaries

Certification on Mobile Platforms

- Expected increase of 3rd party apps
- Various approaches on diff platforms

a. Symbian, J2ME, Windows Mobile

- Independent software testing is required



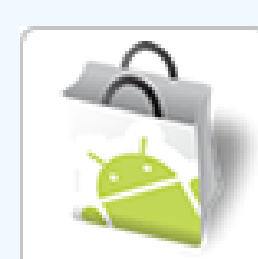
b. iPhone

- Apple decides which apps can distribute through the App Store



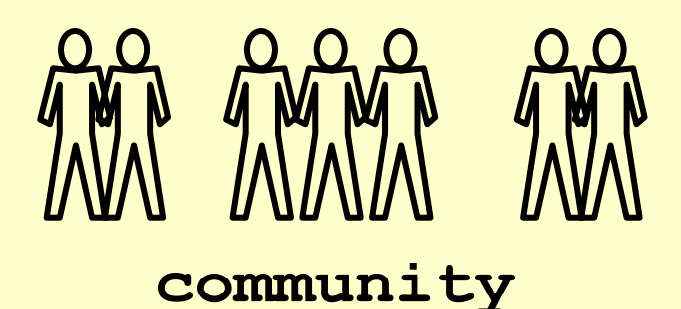
c. Android

- 3rd party apps can be distributed self-signed



Alternative Certification Intermediaries

- Crowd-sourcing security
 - + Many eyeballs effect
 - + User involvement may improve awareness
 - + Personal, cultural and social dimensions
 - ? Doubts about incentives (more than social capital?)



Total-effort & Best-effort Games with social scrutiny

- Improved reliability as N increases (Varian 2001)
 - But underprovision also worsens (esp. in best-effort game) (Hirshleifer 1983)
- Analysis: centralized vs. decentralized structures
 - Reliability vs. social-efficiency tradeoff
 - Different actors: expert, info broker, info consumer
 - Multiple roles across communities