The Inefficiency of Market Transparency – A Model with Endogenous Entry

Burkhard Hehenkamp (joint work with Yiquan Gu)

Abstract:
Including the entry decision in a Bertrand model with imperfectly informed consumers, we introduce a trade-off at the level of social welfare. On the one hand, market transparency is beneficial when the number of firms is exogenously given. On the other, a higher degree of market transparency implies lower profits and hence makes it less attractive to enter the market in the first place. It turns out that the second effect generally dominates: too much market transparency has a detrimental effect on consumer surplus and social welfare.