

A Brief Introduction to Chang and Sanchez-Loor (2016)

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1 Main Ideas

1.1 *What is the question?*

Nowadays, consumers could easily receive valuations and experiences from other buyers, no matter directly from the transaction platform, e.g., valuation system of online stores, or from other social network platform.

How and why would their purchasing decisions be affected by the news, or say, signals, they received from other consumers?

1.2 *Why should we care about it?*

Economic theories tell that asymmetric information is one of the most common factors which leads to market inefficiency. New technologies such as internet and smart phones could help consumers obtain more information about the quality of products. However, how would those valuations and experiences affect the others' behaviour remain uncertain. If we could find evidence that shows consumers do care about not only their own interest, preferences and experiences, but also of others, it might help that firms care more about the quality of products or services they offer and avoid cheating. That could result in being better off in terms of the whole society.

1.3 *What is your (or the author's) answer?*

According to the equity theory, the authors define three factors which might be the motivations why consumers care about the experience of others (*other-regarding preferences*), which are *egoistic resentment*, *social support* and *relative fairness*. They found that egoistic resentment and social support statistically significantly affect the consumers choice, while relative fairness does not. The results show that buyers do care not only their own interest (egoistic resentment), but also other buyers' (social support).

1.4 *How did you (or the author's) get there?*

They design a experiment that sellers are able to choose the quality of their products in the first stage, after transactions are done, buyers could value the products they received. In the second stage, buyers could observe the valuations from other buyers in the first stage. Although buyers

know that sellers are restricted to offer only products with standard quality, the authors found that the repurchasing decisions are significantly affected (with a logistic model).

1.5 Real-world Example

Wowprime Enterprise has been involved in several scandals since 2004, including dishonest use of ingredients and bad promotion activities. Not only those consumers who have *directly* suffered from those events lowered their willingness to repurchase, but also did several consumers who have heard the bad experiences of others. Similarly, not only the brand which was involved suffered, but also all its sub-brands.

2 Notations Used

Notations	Meanings
ER	Egoistic resentment (self-interest), the buyers' own interest.
SS	Social support (sympathy), the interest received of other buyers.
RF	Relative fairness, if the outcomes of the buyers are different compared to the other buyers.
