

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



Manish Tripathi
15 mutual friends
Add as Friend



Eric Schwartz
15 mutual friends
Add as Friend



Eric J. Johnson
15 mutual friends
Add as Friend



Page Moreau
15 mutual friends
Add as Friend



Stefano Puntoni
15 mutual friends
Add as Friend



Adam Alter
15 mutual friends
Add as Friend



Mary Frances Luce
15 mutual friends
Add as Friend



Ravi Dhar
15 mutual friends
Add as Friend



Seshadri Tirunillai
13 mutual friends
Add as Friend



Ann Kronrod
14 mutual friends
Add as Friend



Asim Ansari
14 mutual friends
Add as Friend



Nicholas Economides
14 mutual friends
Add as Friend



Douglas Bowman
14 mutual friends
Add as Friend



David Schweidel
14 mutual friends
Add as Friend



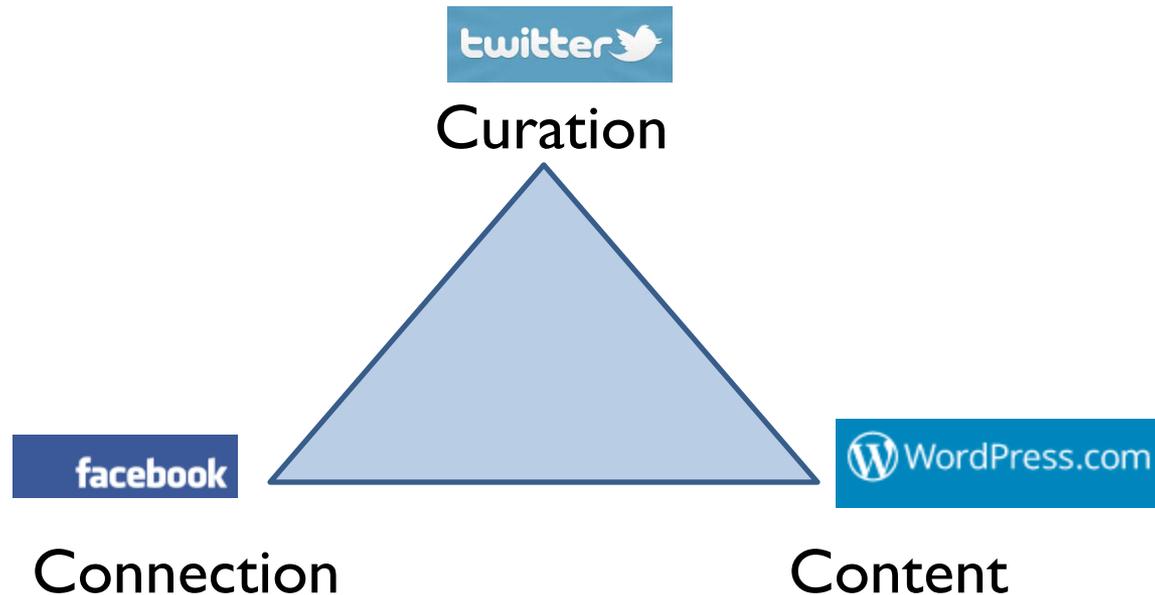
Angeline Close
14 mutual friends
Add as Friend



John Deighton
14 mutual friends
Add as Friend

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

why do consumers use social media?

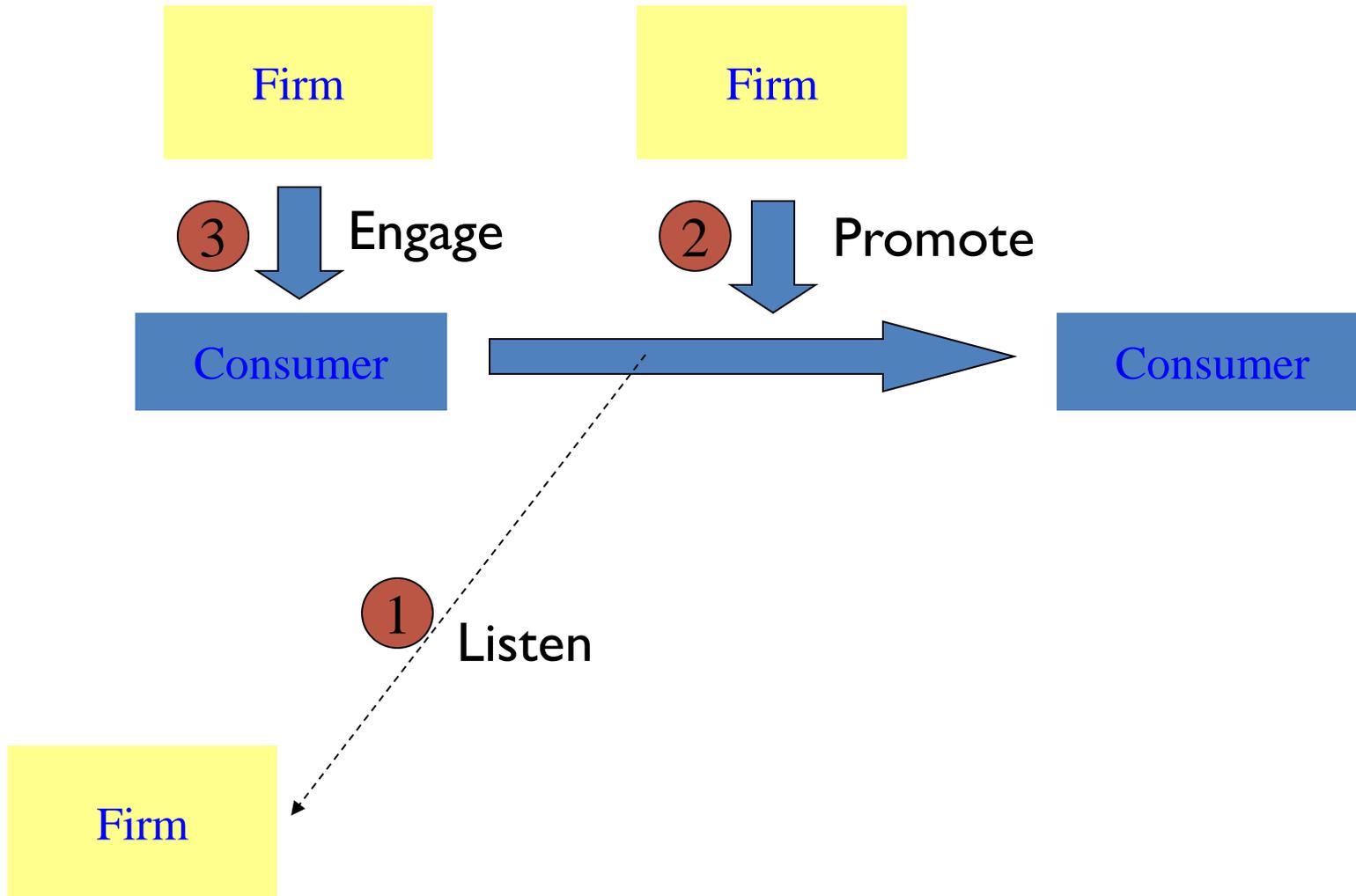


People use different platforms for different purposes – same people but different uses

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)

firm's management of social interactions



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 bad-mouth 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 its informativeness
- The extent of the resulting informativeness of word of mouth depends on how costly it is to manufacture word of mouth and the volume of unbiased word of mouth

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

- Hotel A
 - Branded chain + large owner
 - Hotel B
 - Independent + small owner
 - Hotel C located next to
 - Branded chain + large owner
 - Hotel D is located next to
 - Independent + small owner
- Hotel B has 7 more 5-star reviews on TA.
(avg. num of 5-star reviews on TA is 37).
- Hotel D has 6 more 1- and 2-star reviews on TA.
(avg. num of 1 & 2-star reviews on TA is 30).

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 long-term negative consequences for kids