Incomplete information in experience goods' market: can randomness generate reputation, even when qualities are not different?

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Incomplete information may hinder efficient market allocation, especially with experience goods whose true characteristics cannot be observable before consumption, encouraging firms to emphasize certain characteristics to gain market share. Horizontal differentiation requires firms to signal attributes, but excessive information may lead to the well-known information overload risks (Kalaycı and Potters, 2011) resulting in sub-optimal equilibrium. The current study, by means of a laboratory experiment, aims at assessing the impact of product quality information, provided through others' experiences, on market efficiency. In our experiment, firms offer identical goods and subjects solely choose from which firm they want to buy. Social learning through private and public information disclosure affects choices and may create good/bad reputation for one of the two firms. Results show that social learning significantly affects market efficiency especially when public information is disclosed. We observe the emergence of loyalty to one of the firms even though no difference exists in the goods sold by the two firms.