

# Platform Liability with Reputational Sanctions

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Abstract ID: 360

Inviato: 12/04/2024

Evento: XXII Workshop Annuale SIEPI

Argomento: 14. Economia delle piattaforme e dei mercati digitali

Parole chiave: Platform liability; third-party sellers; reputation.

This paper presents a framework where sellers, an online platform with monopoly power, and consumers transact. We study the interaction between the imposition of liability on the platform, the reputational sanctions exerted by consumers, and the internal measures adopted by the platform to keep in check the sellers, whenever a product generates losses to consumers. We show that introducing direct legal liability of the platform (i) may have both positive and negative effects for safety investments and (ii) is generally welfare-increasing albeit it may be detrimental for welfare when legal costs are sizable. Additionally, when sellers are heterogeneous with respect to either their sensitivity to consumers' or platform' sanctions, we find that

platform legal liability will affect the selection of participating sellers, although the sign and size of the effect largely depend on parameter values.