

Abstract of a paper to be presented at the
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Certification and Market Transparency

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In markets for complex products, third party certification of product quality is often the only instrument to establish market transparency. It is initiated by either sellers or buyers. We compare the two modes. Sellers use certification as a signaling device, buyers use it as an inspection device. This difference alone implies that seller-certification yields more transparency and higher social welfare. Under buyer-certification certifiers limit transparency when maximizing profits. Yet seller-certification yields larger profits, so that active regulation concerning the mode of certification is not needed. Our findings are robust and widely applicable to, for instance, patents, automotive parts, real estate, and financial products.