Background

- Challenge: design mechanism that address fraud and seller misbehavior
- Response: online feedback

Objective

- The effect of seller reputation on transaction prices
  - The effect of reputation for a wide range of product categories is larger than literatures
  - Methodologically, unobserved heterogeneity related to dynamics from the feedback mechanism

Methods

- Data: one of Frances largest e-commerce plat- forms, PriceMinister
- Goal: the relation between a sellers average feedback score and its prices for different categories of products, product conditions and types of sellers

Finding

- We estimate a statistically significant, positive and large causal effect of average rating on transaction prices.
- The effect differs across products and seller categories (professional sellers or private individuals).
- The effect of average rating increases with the size and decreases with the advertised condition of the good.
- We also find a positive effect of recent feedback scores on prices, but of a small magnitude.

$$p_{ijd} = g(r_{id}, s_{id}) + \beta x_{ijd} + \alpha_i + \mu_j + \varepsilon_{ijd}$$

- Logarithm of the price p_{ijd}
- Seller i, product j, discrete time d
- Seller's rating r_{id}
- Seller's size s_{id}
- The effect of rating and size $g()$
- Seller/Product characteristics x_{ijd}
- Seller and product unobserved fixed characteristics α_i and μ_j
- Unobserved seller/product-specific shcok ε_{ijd}

First Transactions

- Product's characteristics have no direct effects on seller's reputation for the first transactions $\rightarrow \alpha_i$ eliminated
  -

$$E[(\mu_{j(i,t+k)} - \mu_{j(i,t)})|r_{it-l}] = E[(\mu_{j(i,t+k)} - \mu_{j(i,t)})|s_{it-l}] = 0$$

$$E[(\varepsilon_{j(i,t+k)} - \varepsilon_{j(i,t)})|r_{it-l}] = E[(\varepsilon_{j(i,t+k)} - \varepsilon_{j(i,t)})|s_{it-l}] = 0$$