Fake News and Consumer Loyalty

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- How can competition incentivise firms to produce fake news?
- How can consumer demand drive the supply of fake news?
- Context: News is freely available so firms try to maximise audience size to maximise advertising revenue.
- Key Argument: Given consumers have a preference for news they agree with, competing firms have an incentive to produce fake news to ensure future consumption.

Argument Summary

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- News firms report on which politician avoided making a mistake.
- Consumers prefer to hear that politician they believe to be superior has avoided making a mistake.
- Firms have an incentive to influence consumers beliefs to match their bias.
- Firms will falsely deny that politician with their bias has made a mistake.

Literature Review

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- Another Answer: Fake news is used to ensure consumer loyalty.

The Model

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- Each period i, firms $F \in \{L, R\}$ receive signal of true state $s_i \in \{l, r\}$ which has accuracy $\pi \in (\frac{1}{2}, 1)$.
- Each period, firms report $\hat{s}_F \in \{L, R\}$. If signal matches firm's bias, report it truthfully. If not then produce false report with probability $\sigma_F \in [0, 1]$.

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5. The firms get a payoff equal to the fraction of consumers who choose their news in the second period.

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- $\sigma_l = \sigma_r$ (equal bias) $\Rightarrow \lambda = \frac{1}{2}$ (equal period 1 audience)
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- $\sigma_L \uparrow \ \Rightarrow \ \lambda \downarrow$ (fewer period 1 customers). But $\sigma_L \uparrow \ \Rightarrow$ higher expected return.

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Proposition (2)

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$\Rightarrow$ Competition is creating the incentive to produce fake news.