7) MORE ON ABILITY - EFFORT RELATION

Since we have taken probability of either correct state revelation or State revelation as a whole as measure of ability. Then is honesty / dishonesty in disclosure terms dependent on Ability?

Breaking down the 2 fundamental aspects of ability and effort, from earlier point

- Ability :- Asking 'relevant' questions / Asking sufficient' questions (Saves time/effort) overall high ability implies high probability of revelation

- Effort :- Asking necessary questions / Asking 'all' questions.

Such that high effort ⇒ high probability of revelation?

If that is the case then we can say ability and effort are ~~complements~~ SUBSTITUTES because ability partially compensates for effort.

(under what conditions would ability enhance effort ie ability & effort as ~~complements~~ complementary)

In Das-Hammer paper they find that high ability experts put more effort.

8) EXPERT - ACTIONS

Experts first choose fixed location in circular city / Hotelling and in next stage effort.

Do we take a state space as continuous [0,1] such that threshold states C, E (cheap (low intensity) & expensive (high intensity) decrease do for eg do for eg

St $0 < C < E < 1$

or do we take a discrete state space either $\omega = \{C, E\}$ or $\omega = \{0, C, E\}$ where 0 is no revelation / No problem.

Effort is conditional on state ie

$$e(E) > e(C)$$

or $e([0,1])$ st $e(0) < e(C) < e(E) < e(1)$

If utility f'n of Consumer AT LEAST depends upon state and corresponding effort

then $u(\omega, e)$ $\begin{cases} \omega \text{ (omega)} - \text{state} \\ e \text{ (effort of expert)} \end{cases}$

* CREDENCE ASSUMPTION

Since the consumer cares about the outcome & not effort per se ie at least the problem is solved then we should not assume

that $u(E, e(E)) > u(C, e(C))$ just because of higher effort ie $e(E) > e(C)$. Thus we assume

$$\boxed{u(C, \bar{e}) = u(E, (E-C)+\bar{e})}$$

where $\bar{e}$ is the minimum effort to solve C and $(E-C)+\bar{e}$ is the minimum effort to solve E.

what are the implications of assuming the following 2 assumptions

$$u(C, C-e) = u(C, C+e)$$
$$u(E, E-e) = u(E, E+e)$$

That is right hand side is superfluous effort above what is needed (over treatment) and left hand side is (undertreatment)