

A study of house prices: Do the benefits of disclosure outweigh the risks?

July 20 2010

Most of us think that disclosing a conflict of interest is a positive step, but a new study in the *Journal of Consumer Research* shows that disclosure can often backfire and make a bad situation worse.

"Our research suggests that people tend to think it is ethically more permissible to give manipulative advice once a [conflict of interest](#) has been disclosed," write authors Daylian M. Cain (Yale University), George Loewenstein, and Don A. Moore (both Carnegie Mellon University).

"At first glance, [disclosure](#) seems like a sensible remedy to a situation in which one party possesses an otherwise hidden incentive to mislead another party," the authors explain. "It might be easier to disclose that one is on the gravy train than to be forced to disembark," the authors write.

In the study, the researchers had groups of people estimate the sale prices of a set of houses. Estimators were paired with advisors who had access to better information for evaluating the prices. The estimators' pay was based on how accurate they were. Some advisors were paid according to how accurate their paired estimators were, but others were given an incentive to mislead the estimators. Some estimators knew whether or not their advisors had motivations aligned with theirs (via disclosure) and some did not.

"Advisors with a conflict of interest, whether disclosed or not, tried to

mislead their estimators, recommending property values higher than their own personal estimates," the authors write. "But advisors whose conflict of interest had been disclosed gave recommendations that were much more inflated than those of advisors whose conflicts had not been disclosed. And even though the estimators knew the advice was biased, they did not sufficiently discount the advice."

The benefits of disclosure are easy to overestimate, the authors write, but transparency is still desirable. "As long as disclosure is not viewed as a substitute for the elimination of conflict, and as long as disclosed information is interpretable by those who receive it (and not written in fine-point legalese), the benefits of disclosure may outweigh the risks."

More information: Daylian M. Cain, George Loewenstein, and Don A. Moore. "When Sunlight Fails to Disinfect: Understanding the Perverse Effects of Disclosing Conflicts of Interest." *Journal of Consumer Research*: February 2011. A preprint of this article (to be officially published online soon) can be found at journals.uchicago.edu/jcr

Provided by University of Chicago

Citation: A study of house prices: Do the benefits of disclosure outweigh the risks? (2010, July 20) retrieved 23 April 2024 from <https://phys.org/news/2010-07-house-prices-benefits-disclosure-outweigh.html>

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