

Ignorance may be bliss for consumers, economist says

February 12 2013

Would having more information about the value of a product—say, a new camera—help potential buyers? Not necessarily, according to a Cornell economist.

Good sources of information can certainly help the individual consumer make good decisions about whether to buy a product, and whether to buy at a particular price. But overall more information is likely to result in higher demand—and a higher price, says Robert Masson, professor of economics.

"If a magazine like *Consumer Reports* comes out with new information about a product, and now people really value the product, well, the price is going to go up. So you may have the effect that consumers are actually worse off," said Masson, an expert in theoretical and empirical industrial organization.

Masson's paper, "Ignorance Is Bliss? Uncertainty About Product Valuation May Benefit Consumers" appears in the most recent issue of *Applied [Economics Letters](#)*.

The economists assume that consumers are sophisticated in the sense that, on average, they are able to accurately estimate an item's value. Some underestimate, others overestimate, but overall the group appraises the product's value correctly.

"So virtually everybody is making the right decision beforehand. You

give them information, and this will tend to raise the price, so all these people who were making more or less the right decisions before are going to be paying a little bit more," Masson said.

[Philosophers](#) call the concept a "fallacy of composition"—that is, what is true for a part of the whole is not necessarily true for the whole. In this case, information that benefits one consumer may in fact be adverse for buyers as a whole.

The study suggests that credible sources of information do provide a helpful service, especially when they address a product about which consumers are poorly informed. "To the extent that Consumer Reports, for example, really picks things where there's likely to be uncertainty beforehand, consumers should look at that sort of stuff," Masson said. But if the consumers are already fairly well informed, then the information is less valuable, he added.

"We cannot help but to notice the irony of it: in the case of [Consumer Reports](#), [consumers](#) pay for truthful and unbiased information that can in some cases hurt them," Masson said.

More information: *Applied Economics Letters* (20:9).

Provided by Cornell University

Citation: Ignorance may be bliss for consumers, economist says (2013, February 12) retrieved 23 May 2024 from <https://phys.org/news/2013-02-bliss-consumers-economist.html>

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