

Do competitive sellers disclose their offers? Consumer sophistication does not matter

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Both lawyers and economists have stressed on the implications of asymmetric information characterizing standard form contracts. Using such an expression lawyers refer to those contracts presented by sellers to consumers in a take-it-or-leave-it form and containing standard terms. For this reason, it is said that understanding the content of fine print implies a cost on the side of the consumer. Economists have focused their attention on this crucial element as shown by the large literature on reading costs (Katz, 1990; Che and Choi, 2009) in order to find a remedy, such as an efficient policy, in order to protect consumers.

In this paper I wish to understand whether competition among sellers may push them to voluntarily disclose their offers and make consumers fully informed about the transaction terms. On this point, there is a large literature focusing on the effects of asymmetric information when the less informed party is not fully rational or sophisticated (Shapiro, 1995; Gabaix and Laibson, 2006; Armstrong, 2008).

My paper goes further proving that competitive sellers may not disclose in equilibrium even if all consumers are fully rational and may monitor the contract terms before purchasing at some positive cost.

Although the aim of the paper does not rely on the choice between different legal regimes, I also show that imposing a duty to speak on sellers may turn out useful to the social welfare if they are competitive since they may not disclose in a free market.