Mitchell "Free (Ad)vice"

Discussant:

Ginger Zhe Jin

University of Maryland & NBER

A novel framework

- Incorporates:
  - Antitrust issues: search engine bias
  - Consumer protection issues: native advertising, online influencers
  - General phenomena: ad-supported medias, user-generated contents, social media followers, etc.

- Extends:
  - Paid advice and expert bias
  - Dynamic reputation
  - Disclosure
  - Theory of market power
  - Two-sided markets
  - Media bias
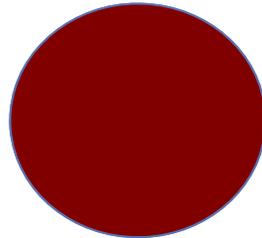
Key Assumptions in the Basic Model

1. Influencer may engage in an activity that the follower dislikes (advertise)
2. The follower can only use "following" to curb the undesirable activity, based on a noisy signal (good advice)
3. Following implies costly commitment (attention)
4. Ad technology is exogenously given
5. Total surplus is fixed
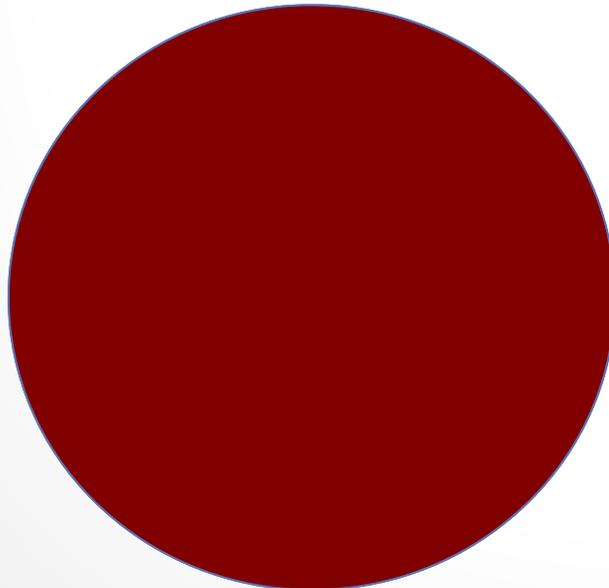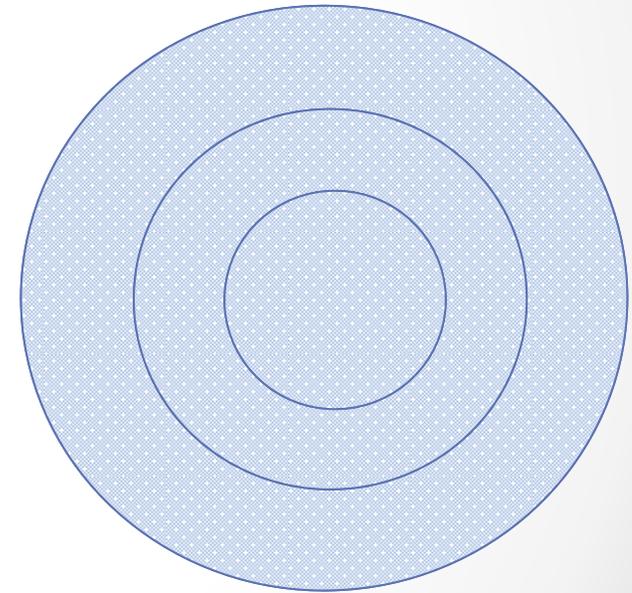
Influencer's tradeoff

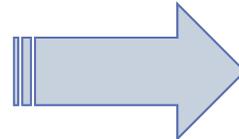Today   Tomorrow
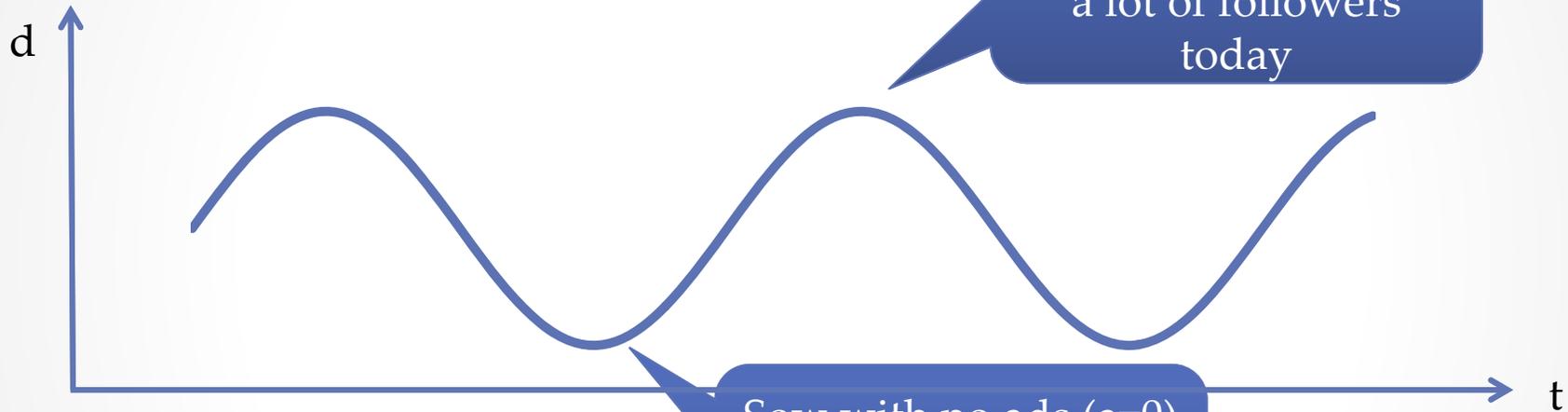
If few
followers
today   →

Random
arrival
of good
advice

If a lot of
followers
today   →

Sow and Harvest

- Influencer:

d ↑

Harvest with ads (a=1) when there are a lot of followers today

Sow with no ads (a=0) when there are few followers today

t →

- Follower:
  - Follow until d=0
  - Never resume following once quit
  - Permanent quit is a threat to the influencer

Policy Implications

- **Question #1: what is the objective function?**
  - Followers' payoff ✔
  - Total payoff

- **Question #2: what is the best tool to achieve that?**
  - Change the ad technology (e.g. ad payoff rules)
  - Restrict the influencer's behavior directly
  - Raise the follower's outside option

# Is advertising tax always neutral?

- Yes, as tax affects today and tomorrow proportionally
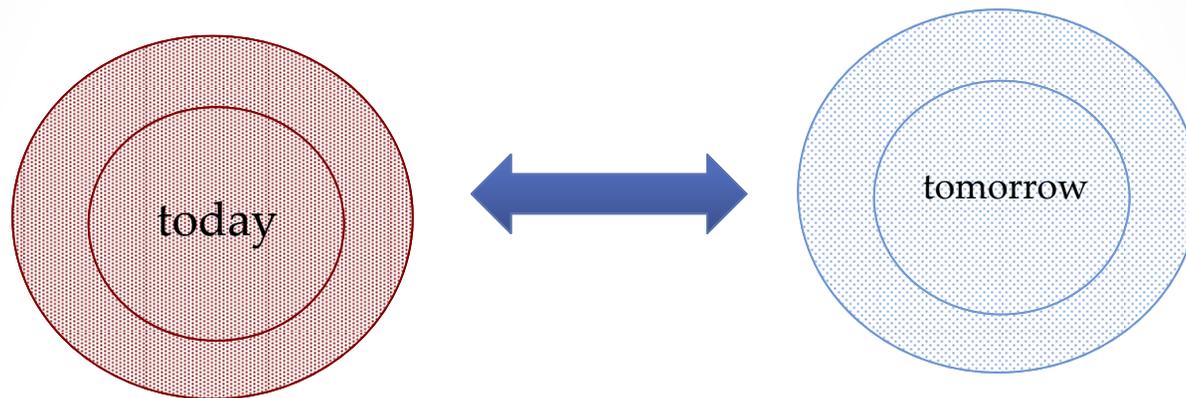
- But the follower's outside option is fixed.
  - High s ➔ need more good advice to motivate following ➔ less ad

- What if there is a cost for the influencer to create non-ad content?

FTC disclosure guideline for influencers

- I agree that FTC guideline affects both the return to disclosed ad and the return to undisclosed ads

- But the impact on the two is interdependent:
  o Because disclosure is endogenous
  o Disclosed ads will change follower's perception of undisclosed ads

- FTC disclosure guidance can also <u>change the rule</u> of dividing the total surplus
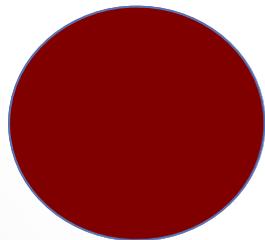
Basic model: grab the pie today or leave it on the table
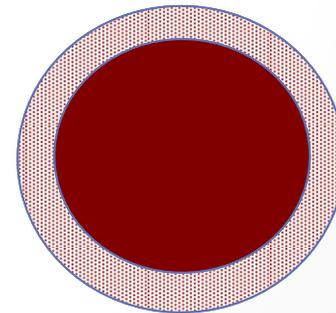
Policy worry: the influencer could grab a pie bigger than the real pie, and inflict damage on the follower

Opt-in disclosure

- **Mitchell:**
  - Suggest FTC only enforces disclosure on small influencers
  - Keep the return of harvesting followers large, which in turn encourages influencers to grow big (via no ads)

- **FTC practice: quite the opposite**
  - FTC caught Kim Kardashian in Sketchers (for deceptive advertising, 5/2012)
  - FTC sent warning letters to 21 social media influencers (4/2017)
  - Justified by potentially large consumer damage from big influencers

Search Engine Bias

- Mitchell models market power of influencer in 2 ways:
  - Increase in total surplus
    - Market power ➜ higher return to follower from good advice Why?
    - Market power ➜ higher payoff to the influencer from ad ✔

  - Additional income independent of ad ($\lambda a+v$)
    - Additional income (v) goes directly to the influencer regardless of a
    - Why not allow v to affect the following payoff directly?

- In reality
  - Celebrities create "authentic content" to attract followers
  - Search engines create "organic results" to attract users
  - Both imply a motivation to provide good advice that is related to follower behavior but not to ads
  - This will get closer to the real business model of influencers

Overall

- ## A novel and general model
  - o Tons of potentials

- ## Many interesting insights
  - o Encourage harvest in order to promote good advice
  - o Advertising tax needs to be asymmetric (between today and tomorrow)
  - o Competition can undermine good advice because it reduces future returns

- ## Get closer to real business models and real policies