

Midlands Economics Theory and Applications (META) Workshop
Abstracts of papers

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Social Value of Information Espionage

Abstract: In a duopoly with unobservable demand, the firms can learn about its value from the two sources: (i) a private noisy signal (interpreted as market research), and (ii) paying to get access to the opponent's private information (interpreted as information espionage). In equilibrium, the firms engage in espionage, unless the alternative source of information is very precise. From the social perspective, the firms in price-setting duopolies under-invest in spying, whereas quantity-setting duopolists over-invest in it. This is because the competitors do not internalise the externality of shared information, and hence coordinated actions, in the games of strategic complementarity and substitutability respectively. However, if the social planner can only marginally affect the cost of spying, it can be beneficial to deregulate espionage, under both price and quantity competition.