Ratings & Reciprocity

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Abstract

Growing evidence questions the usefulness of reviews, suggesting that ratings may be overinflated and do not reflect product quality. Recent evidence also suggests reviewers are intrinsically motivated and reciprocate offers with sufficient value-for-money with good ratings. We incorporate reciprocity into a model of ratings where sellers and past consumers have superior information about product quality. We identify multiple channels through which reciprocity-motivated ratings can explain rating inflation. First, when it becomes easier for consumers to leave a rating, smaller price cuts suffice to induce consumers to leave a good rating. Thus, encouraging consumers to rate---e.g. by facilitating or rewarding reviews---induces especially low-quality sellers to get good reviews and induce ratings inflation. Second, pre-screening seller quality can disproportionately increase ratings for low-quality firms, leading to ratings inflation. As a result, screening seller quality and rating systems can be substitutes for helping consumers identify quality. We also discuss policy implications that arise from the design of ratings systems and show that consumer surplus suffers in the presence of uninformative ratings.