

Title: Misleading Advertising of the Vertically Differentiated Products and Minimum Quality Standards

Keisuke Hattori (Faculty of Economics, Osaka University of Economics)¹

Keisaku Higashida (School of Economics, Kwansei Gakuin University)²

Abstract

This paper examines the relationship between misinformation, which makes consumer perceive the quality of the product higher than it truly is, and minimum quality standards (MQSs), when products are vertically differentiated in their health/safety aspects. Assuming Bertrand duopoly, we investigate the effect of regulating misinformation on the welfare in the presence of an MQS and a certification criterion. We also examine the effect of a change in an MQS (a stricter MQS) on the welfare in the presence of misinformation. We find that when the amounts of misinformation of both low and high quality products are large, a stricter regulation on the misinformation of the low quality product increases the welfare. On the other hand, a stricter regulation on the misinformation of the high quality product always improves the welfare. We also demonstrate that a stricter MQS can harm the welfare, in particular, which is likely to occur when the difference between the perceived qualities of both types of goods is large and when the large amounts of misinformation are sent by firms. The result on the changes in MQSs cannot be observed when there is no misperception by consumers.

¹ Address: 2-2-8, Osumi, Higashiyodogawa-ku, Osaka 533-8533, Japan.

Email: hattori@osaka-ue.ac.jp

² Address: 1-155, Ichiban-cho, Uegahara, Nishinomiya, Hyogo 662-8501, Japan.

Email: keisaku@kwansei.ac.jp