

Finance and Economics Discussion Series: The Dark Side of Competitive Pressure

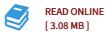
United States Federal Reserve Board, Jason G. Cummins, Ingmar Nyman



Finance and Economics Discussion Series: The Dark Side of Competitive Pressure (Paperback)

By Jason G Cummins

Bibliogov, United States, 2013. Paperback. Condition: New. Language: English. Brand New Book ***** Print on Demand *****. One of the most basic principles in economics is that competitive pressure promotes efficiency. However, this pressure can also have a dark side because it makes firms reluctant to act on private information that is unpopular with consumers. As a result, firms that possess superior information about the consequences of their actions for consumers welfare may choose not to use it. We develop this idea in a simple model of delegated investment in which agents are fully rational and risk neutral, and agency problems are absent. We show that competitive pressure obliges firms to make inefficient decisions when their information advantage over consumers is relatively small. This result could be applied to a broad range of economically important situations.



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