Users of Ebay, an online auction house, are motivated by a variety of factors to provide feedback on their transaction experiences with the site. Many users feel some sort of duty or responsibility to provide feedback. They also provide feedback as a courtesy to the person with whom they completed a successful transaction. The anticipation of reciprocity is another motivating factor to providing positive feedback. For example, a seller may provide positive feedback for a particular buyer with whom s/he has completed a trade in the hopes that the buyer will reciprocate with positive feedback about the seller.

Users are motivated to be honest in order to protect their reputations and build up positive ratings, so that they can ultimately conduct more business. A dishonest user may get negative reviews (or no reviews at all), and this will cause other users to be less inclined to do business with this user, when they can instead deal with someone who has many positive ratings.

Users of Ebay seem to be much more motivated to provide positive feedback than negative feedback. This could be because negative ratings can do a great deal of damage to a reputation, and conscious of this fact, frequent Ebay users may be hesitant to make a negative comment. It could also be that the reputation system effectively works to eliminate trades that would result in negative feedback. Market participants are reluctant to trade with traders with negative reputations, and once one’s negative rating gets low enough, Ebay prohibits this user from trading altogether. Thus, the system works to self-select out the traders who would engender negative remarks.

The Ebay reputation system works best when all parties (feedback providers, subjects of the feedback, and audiences for the feedback) act in an honest manner. If the
feedback providers give dishonest feedback, they can ruin the reputations of the honest sellers. In turn, the honest sellers may no longer be able to sell their products on Ebay, and may stop using it altogether. Additionally, the audiences of the feedback, or the buyers, will learn that the feedback is often not reliable and they will cease to trust it, and will no longer feel comfortable making purchases on Ebay. Ultimately, dishonest feedback may cause the whole system to break down. Thus, the relationships between the different kinds of users of the reputation system influence the system to be reliable, for the most part.

Resnick and Zeckhauser also point out that all it takes for the system to work is a belief among its participants that it works, regardless of whether it is actually reliable. If the sellers believe that negative feedback will negatively influence their ability to sell, and the buyers believe that people with negative reputations should not be bought from, then the system will continue to operate effectively, even if these beliefs are not necessarily true.

**Describe in clear and concise detail the costs and benefits to the participants in a model public reputation system of the different possible actions they may make (i.e. deceptive or honest acting; punishing or not punishing transgressors). Do the same for a model private (gossip based) system. Don't forget issues such as the possible mismatch between the rater and the audience, etc.**

In a model public reputation system, the participants will experience different costs and benefits based on their actions, depending on whether they act honestly or deceptively. For example, an honest seller on a system like Ebay will benefit from positive feedback and a positive reputation. The good reputation will inspire more customers to buy from this particular seller, and the seller will then reap the benefits of a greater number of sales. The costs that the seller pays by being honest are not maximizing on his potential gain. A deceptive seller could exploit a buyer by providing him with lower quality goods than promised, and still charging for a high quality product. In doing so, the deceptive seller would benefit by reaping more financially from this transaction than if he had acted honestly; the honest seller pays the cost of not reaping this potential reward. Thus, the benefits to the deceptive seller are just that – taking advantage of an opportunity to make the maximum profit from a transaction by cheating
a buyer. But the deceptive seller also risks the cost of earning a bad reputation, not being trusted, and then not being able to participate in any future transactions.

The costs and benefits for a buyer in a public reputation system are similar to that of a seller. An honest buyer will inspire positive feedback, and will benefit from more people wanting to do business with him. The honest buyer pays the cost of not cheating a seller to get an item for free (i.e. receiving an item from the seller and not paying for it). The deceptive buyer is one who will presumably get items for free, which is the primary benefit to acting deceptively. The deceptive seller pays costs in terms of the negative reputation he may acquire, which may result in a situation in which no one is willing to do business with him.

In a private (gossip-based) system, the costs and benefits play out a little differently. The participants, rather than being buyers and sellers, are the gossipers themselves, and their audience - the people who listen to them. The primary benefit to being an honest gossiper (one who only says what he knows first-hand to be true about another person) is that he will gain the trust of his listeners. His listeners will know that this particular source of information is highly likely to be true. The honest gossiper is then likely to develop a good reputation, and people may be more willing to confide in him, knowing that he will not spread rumors. The cost to being an honest gossiper is that he cannot manipulate the reputations and actions of others in order to make himself look better. A dishonest gossiper, on the other hand, may spread fallacious information about other members of a social circle with the purpose of making himself appear in a better light. The dishonest gossiper benefits by manipulating the actions and opinions of others who listen to him. He does so in order to either promote his own agenda, or to hinder the agendas of others in the group. The costs to the dishonest gossiper are that if others find out about his dishonesty, his reputation will suffer and others will regard him as untrustworthy. People will cease to confide in him, or tell him personal information, for fear that he will use this information against them, or twist it in such a way that it is no longer an accurate reflection of the truth.

The recipient of honest gossip benefits by being equipped with useful and true information. His knowledge of others increases, and he has a better understanding of the workings of his social world. There are no major costs to receiving honest gossip. The
recipient of dishonest gossip, however, pays the costs of potentially believing false information. He is purposefully misled, which may then cause him to act in such a way as to damage his own reputation. The potential benefit of receiving dishonest gossip is that if the recipient knows (or otherwise learns) that the information is in fact false, he can then use that knowledge to expose the dishonest gossiper. The dishonest gossiper’s reputation will then suffer and people will cease to trust him.

**Describe a real life situation in which reputation information is exchanged, either publicly or privately. Ebay has been extensively written about, so pick something else. You can use Amazon.com reviews, teacher recommendations, gossip exchange in a social group, etc. Describe the situation in detail. Is the information reliable? What keeps it so? What is the relationship among subjects, raters and audience? What are the costs and benefits the participants receive? How well does this fit with the model you described above?**

The Greek system at American colleges and universities represents a real life situation that is notorious for members exchanging reputation information, particularly during fraternity/sorority rush. During rush, members of a fraternity/sorority hold parties and events, the purpose of which is to meet with other students at the school who are potential new members of the fraternity/sorority. After each party, the members of the fraternity/sorority discuss each person whom they have met, and decide whether to invite them back to a future event, and eventually, whether to extend them a bid to join the fraternity/sorority. The decision of whether to extend someone a bid is based not only on meeting the individual, but also on the reputation that the individual has acquired outside of rush. This reputation can be based on what organizations the person belongs to, which dorm s/he lives in, his/her choice of major, who his/her friends are, etc. All of this information is key to determining whether the person is a good fit for the particular fraternity/sorority in question.

Another factor to consider in this system is that each Greek organization at a school has its own reputation. For example, one fraternity may be considered the athletic, or “jock” fraternity, while another may have a large proportion of members who are engineers, and thus is considered the “nerdy” fraternity. Each fraternity aims to recruit new members who are most likely to fit in with its current members.
At a rush event, the fraternity brothers are likely to ask the potential new members questions that are related to college life, such as what dorm they live in, what classes they are taking, and what extra-curricular groups they have joined. The factual information that the rushee provides to the members of a fraternity is probably reliable, particularly because if there is any suspicion of false information, the fraternity members could easily fact-check it against the university records. But it is also important to consider that some fraternities may have better reputations on campus than others, and it may be more desirable to try to gain membership into these “cooler” fraternities, even if an individual has to misrepresent himself to do so.

The benefit to the rushee of providing reliable information is that he will more accurately represent himself and his personality. This will enable the members of the fraternity to better assess whether he would fit in with the group. Thus, the honest rushee is more likely to be invited to join a fraternity in which he would have a great deal in common with the other members, and would be most likely to form genuine friendships. The cost to the rushee is that he may not be invited to join the fraternity with the best reputation on campus. If he joins a fraternity with a lesser reputation, his own reputation may suffer as a result.

A dishonest rushee may misrepresent himself in order to gain admittance to a well-reputed fraternity. He hopes to benefit by being offered a bid from his desired fraternity. If he is offered a bid, his reputation will then benefit from his association with this particular Greek organization. He may be invited to more parties, be more likely to get dates with certain women, and be associated with other “cool” people on campus. The costs are that he may not actually fit in as well as he would with another fraternity. He may not have that much in common with the other members, and may not form real or lasting friendships.