Abstract: We develop a model of positive and negative word of mouth (WOM) and analyze how a firm can optimally exploit WOM through pricing of the product. We consider a market in which the purchasers of a product can choose to spread information about their experiences to potential new adopters. But purchasers are willing to talk positively (negatively), only if they believe their positive (negative) message will affect the adopters purchasing decision positively (negatively). Thus, higher prices result in positive WOM equilibria while lower prices result in negative WOM equilibria. In a negative WOM equilibrium, only negative messages are being transmitted, so no news is good news. It turns out that, for a new product, negative WOM can be very attractive to the firm. This is because there are relatively few people who have already purchased the product, and so many potential adopters receive no news, which is good news in this case. Whether the seller wants to induce positive or negative WOM is also affected by the heterogeneity in beliefs about the product in the population. With heterogeneous beliefs the strength of the signal becomes important. Thus, positive WOM equilibria are more attractive to the firm. New product categories can be thought of as having more dispersed prior beliefs while products in known product categories are likely to have more homogeneous priors.