Abstract

Is Ignorance Bliss? Consumer’s Information and Optimal Pricing

In a monopoly pricing problem, I study how a consumer’s information about his valuation affects optimal pricing, realized gains from trade, and consumer’s and seller’s share of surplus. A consumer’s information is determined by the choice of an information structure. Two cases are analyzed: The one in which the consumer is constrained to finite information structures, and the unconstrained case.

The consumer-optimal information structure is identified. Any finite, consumer-optimal information structure satisfies three properties: It is partitional, guarantees seller-indifference, and induces efficient trade. Information about low values is only coarse, whereas the information about high values is more precise and may be perfectly informative. The consumer strictly benefits from having access to information structures with more signal realizations. Surprisingly, even in the absence of information constraints and costs, the consumer benefits from committing to ignore information. Under the consumer-optimal information structure, trade is efficient and the consumer is strictly better off than under monopoly pricing for a fully informed consumer. Applications to rational inattention and to information regulation policies are discussed.