

# Optimizing Information in the Herd \*

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April 2000

## Abstract

Herding arises when an agent's private information is swamped by public information in what Jackson and Kalai (1997) call a recurring game. The agent will fail to reveal his own information and will follow the actions of his predecessor and, as a result, useful information is lost, which might have highlighted a better choice for later decision-makers. This paper evaluates the strategy of forcing a sub-set of agents to make their decision early from the perspective of a social planner, and a firm with a valuable or valueless product. Promotional activity by firms can be explained as an attempt to overcome the herd externality and maximize sales.

J.E.L. classification numbers: D82 (asymmetric and private information), D83 (search, learning and information), L15 (information and product quality), M30 (marketing and advertising).

Accepted for publication in *Games & Economic Behavior* as of October 2000.

\* The author would like to thank Ernesto Dal Bo, Paul Klemperer, Meg Meyer, John Morgan, Peter Sørensen, and Lucy White for their useful comments. The anonymous referees and associate editor of *Games & Economic Behavior* are also to be thanked for several improving comments. Financial support from the ESRC and AEA Technology is gratefully acknowledged. Author's new address (as of October 2000): Churchill College, University of Cambridge, Cambridge CB3 0DS; Email: [daniel.sgroi@econ.cam.ac.uk](mailto:daniel.sgroi@econ.cam.ac.uk); Html: <http://www.chu.cam.ac.uk/~ds10006/home>.