Optimizing Information in the Herd *

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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).