Research Working Papers

Privacy Regulation and Quality Investment

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Stricter privacy regulations do not always come at the expense of innovation and service quality.

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This paper analyzes whether a privacy regulation that restricts a dominant firm's data disclosure level harms the firm's incentives to invest in service quality and thereby harms social welfare. We study how the regulation affects the privacy and quality choices of a monopoly service provider, who derives revenues solely from disclosing user data to third parties, as well as how those choices in turn affect consumers' participation and information-sharing decisions. We show that the regulation does not always harm investment incentives; moreover, even when it does, it may still improve social welfare.

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Article Citations

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Related Research

- Casadesus-Masanell, Ramon, and Andres Hervas-Drane. 2015. "Competing with Privacy." *Management Science*, vol. 61, no.1, pp. 229-246.

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