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Abstract:

Optimal Disclosure of Private Information to Competitors

I consider a duopoly model with differentiated substitutes, price competition, and uncertain demand, in which one firm has an information advantage over a competitor. I study the incentives of the informed firm to share its private information with its competitor and the incentives of a regulator to constrain or enforce disclosure to benefit consumers.

I show that full disclosure of information is optimal for the informed firm because it increases price correlation and surplus extraction from consumers. A regulator can increase expected consumer surplus and welfare by restricting disclosure, but consumers can benefit from the regulator privately disclosing some information to the competitor. Disclosure increases the ability of firms to extract surplus from consumers, but private disclosure creates a coordination failure in firm pricing. Private partial disclosure is optimal for consumers when firms offer sufficiently close substitutes. My findings highlight the effect of an uneven distribution of consumer data between firms on welfare allocation. They also inform an ongoing policy debate about how to control the dissemination of information between firms to protect consumers.