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Abstract

Certification Design with Common Values

This paper studies how certification design is affected by the objective of the designer. Our model features a profit-maximizing certifier offering his services to the seller of a good of unknown quality. We allow for common values as the seller’s cost may depend on the quality of the good. We compare certifier-optimal with transparency-maximizing certification design. The certifier-optimal certification design implements the evidence structure of Dye (1985) – a fraction of sellers acquire information while the remaining sellers are uninformed – and results in partial disclosure to the market. A transparency-maximizing regulator prefers a less precise signal which conveys more information to the market through a higher rate of certification and unraveling (Grossman, 1981; Milgrom, 1981) at the disclosure stage. Keywords: Disclosure, Certification, strategic information transmission, information design JEL Classification: D82, D83, L15