

Manufacturer Certification in Second-Hand Markets

Abstract

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We analyse an overlapping generations model of manufacturer certification in durable goods markets with asymmetric information about the quality of used goods. The functioning of second-hand markets has two effects on markets for new goods, a substitution, and a resale value effect. Through certification, manufacturers reduce adverse selection in second-hand markets and extract resulting rents through the markets for new goods. Certification may increase profits at the expense of social welfare, by increasing average quality while decreasing trading volume. Manufacturers may be willing to subsidise certification to increase profits on new goods and thus have an advantage over third-party certifiers.