Monopoly Pricing with Optimal Information

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<u>Abstract</u>:

We analyze a monopoly pricing model where information about the buyer's valuation is endogenous. Before the seller sets a price, both the buyer and seller receive private signals that may be informative about the buyer's valuation. The joint distribution of these signals, as a function of the valuation, is optimally chosen by the players. In general, players have conflicting incentives over the provision of information. As a modelling device, we assume that an aggregation function determines the information structure from the choices of the players. We characterize the payoffs and prices that can arise in equilibrium for a natural class of aggregation functions. When both players are initially uninformed, equilibrium prices do not depend on the buyer's valuation. In contrast, if the buyer initially knows her own valuation, the price in every equilibrium is always equal to either the buyer's valuation or the uniform monopoly price.