

# Jianpei Li

## *Presentation Title*

### **Efficient Liability in Expert Markets**

(with Yongmin Chen and Jin Zhang)

## *Abstract*

We study the design of efficient liability in expert markets. An expert may misbehave either by prescribing the "wrong" treatment for a consumer's problem, or failing to exert proper diagnosis effort. We show that under a range of liabilities the expert will recommend the appropriate treatment based on his information if price margins for alternative treatments are close enough. Moreover, a well-designed liability rule can motivate efficient diagnosis effort. We demonstrate that unfettered price competition between experts can undermine the efficient role of liability, whereas either a minimum-price or an obligation-to-serve constraint will restore it.

## *Keywords*

Credence goods, experts, liability, diagnosis effort, undertreatment, overtreatment

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