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Presentation Title

Testing the Sender: When Signaling is Not Enough

(with Nicolás Figueroa)

Abstract

We study the interaction of signaling and information acquisition. A firm, after observing the worker's signal, may costly acquire information by performing a test on the applicant. Information acquisition depends on the beliefs generated through signaling. We consider different models of information acquisition, including the rational inattention approach, a generalization of the “truth or noise” and a general grading model. We first show that, in any of these settings, the test precision exhibits an inverse U-shape form with respect to the beliefs induced through signaling by the worker. Moreover we show that if the firm's prior about the worker's quality is low, signaling plays an important role. A high-skilled worker, knowing that the firm's response to better (signaling) beliefs will be a more accurate test, will signal his type as much as possible. Low types will be dissuaded from mimicking in order to avoid a more precise test. When the firm's prior about the worker's quality is high enough, all information revelation is left to the firm, and no signaling will occur in equilibrium. Since mistakes are less likely, the firm's response to higher belief is a less accurate test. A high-type worker, then, will not be able to signal his type without being mimicked by the low type who benefits more from more lenient inspections.

Keywords

Information acquisition, signaling, rational inattention,

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