

Competitive Screening Under Heterogeneous Information

**Daniel Garrett
Renato Gomes
Lucas Maestri**

Toulouse School of Economics
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ABSTRACT

We study competition in price-quality schedules in a setting where consumers privately know their willingness-to-pay for quality (type), and are heterogeneously informed about the offers available in the market. While firms are ex-ante identical, the menus offered in equilibrium are dispersed. Equilibrium menus are ordered so that more generous menus leave more surplus uniformly over types. Firms that offer more generous menus engage in less quality distortions, have larger product lines with lower prices over all products, and derive a greater fraction of their profits from sales to consumers with low willingness-to-pay. In the limit as the number of firms grow large, or as consumers become perfectly informed about the firms' offers, equilibrium menus are efficient for all types.