

Abstract

Asymmetric information can distort market outcomes. I study how the online disclosure of information affects consumers' behavior and firms' incentives to upgrade product quality in markets where information is traditionally limited. I first build a model of consumer search with firms' endogenous quality decisions. In this model, lower search costs reallocate demand toward higher-quality producers, raising firms' incentives to upgrade quality, and more so for firms selling ex-ante lower-quality products. I then use the access to online reviews to proxy for reductions in consumers' search costs and estimate its impact on the restaurant industry in Rome, exploiting the abolition of mobile roaming charges in the EU in 2017 for identification. Based on a unique dataset combining monthly information from Tripadvisor with administrative social-security records, I find that, after the policy, revenues and total employment in mid- and high-rating restaurants grow by 3-10%. In turn, the probability for low-rating restaurants to exit the market doubles compared to the pre-policy period, while surviving low- and mid-rating establishments hire workers with higher wages and better curricula, eventually improving their Tripadvisor ratings. Overall, the share of low-rating restaurants in the most tourist areas decreases by 2.5 pp. My findings have implications for the role of review platforms in the performance of offline industries under asymmetric information.