Data and Incentives

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Regulating data usage

Consumer data from online activity is widely collected for commercial use.

Policymakers are considering regulating data usage to...

- Protect consumer privacy
- Ensure transparency about what data is collected
- Give consumers control over their data

We study a less-emphasized regulatory criterion:

- Incentivize good consumer behavior
Data and incentives

Prototypical example: the market for auto insurance.

- Auto insurance rates depend on a driver’s history of past accidents
- Drivers are incentivized to drive carefully to keep rates low

If firms begin using new consumer data to set rates, how do incentives for safe driving change?
Our findings

1. Data can move consumer effort in either direction
   - “Quality-linked” data correlated with long-run outcomes decreases effort
   - “Circumstance-linked” data correlated with short-run outcomes increases effort

2. Good data policy treats quality- and circumstance-linked data differently
   - At least one data category should be restricted, but which one depends on market conditions