

Labeling policies and market behavior: quality standard and voluntary label adoption

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Abstract:

This paper focuses on the third-party certifiers' strategy when choosing a required label quality and the consequent market outcome. We consider two different objectives of the certifier: maximizing global demand for the labeled product (**wide public policy**), or maximizing global quality of the market (**global quality policy**). In a duopoly set up with firms bearing different costs with respect to quality provision, firms always opt for differentiation strategies: only one adopts the label. However, the labeling firm is not necessarily the most efficient one. In the case of a wide public policy, the efficient firm will produce the labeled products only if costs of labeling are sufficiently low. In the case of a global quality policy, the low cost firm will always push the high-cost firm into the labeling program.

Keywords: labeling, product quality, Bertrand duopoly, public policy

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