

# How the Presence of Counterfeit Victims in the Victim Marketplace Affects Social Welfare

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## Objective

- We propose and test a theory that examines the potential social welfare costs when an increasing number of people in a society are false victim signalers (FVS), i.e., *counterfeit victims*.

## Background

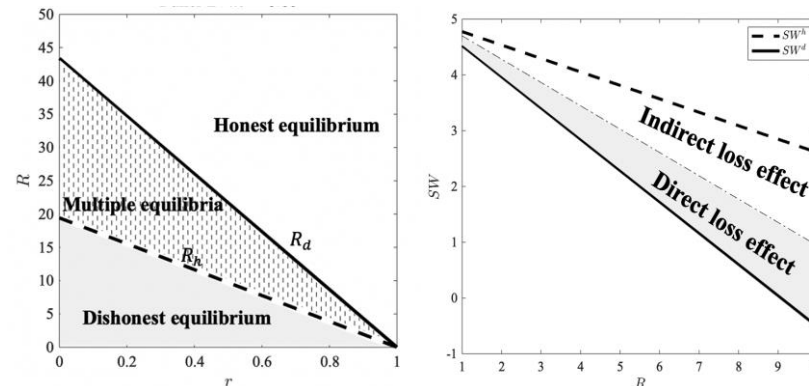
- The emission of false or exaggerated distress signals is common (e.g., GoFundMe, fraudulent claims to insurance companies).
- False victim signals* consume social resources (e.g., time and attention of social workers, managers, et al.).
- Counterfeit victim*: The effects of counterfeit products on markets, consumers, and other firms can be a useful analog for predicting the social welfare consequences of false victim signaling as it spreads throughout a population

## Methods

- Build on and extend Tirole (1996)'s collective reputation model
- Victim marketplace: a set of charitable organizations and individuals (with a probability in encountering suffering)
- Agent type: honest, strategic, and hedonic signalers
- strategy: authentic signaling (AS), false victim signaling (FS)

## Results

- Multiple equilibria: honest equilibrium, dishonest equilibrium
- Social welfare under honest equilibrium is higher than that of dishonest equilibrium.
- Direct* social welfare loss: hedonic signalers crowd out the resources for true victims (lemon market)
- Indirect* social welfare loss: strategic signalers are tempted to join the run on charity resources



## Conclusion

- As the number of counterfeit victims (FVS) increases, the victim marketplace is more likely to fall into the dishonest equilibrium with a lower social welfare.
- As the victimhood losses compared to the private benefits from emitting false victim signals increase, the market is more likely to result in the dishonest equilibrium.
- When charity resources are scarce, the market is more likely to result in the dishonest equilibrium.
- When signaler's risk of incurring victimhood is low, the market is more likely to result in the dishonest equilibrium.

## References

- Ok, E., Y. Qian, B. Strejcek, K. Aquino (2020), "Signaling Virtuous Victimhood as Indicators of Dark Triad," *Journal of Personality and Social Psychology*.
- Tirole, J. (1996), "Theory of Collective Reputations (with Applications to the Persistence of Corruption and to Firm Quality)", *Review of Economic Studies*.