

Robert Thornton, a professor of economics at Lehigh University in Bethlehem, PA, has compiled a list, the Lexicon of Inconspicuously Ambiguous Recommendations, of useful phrases for letters of recommendation on marginally qualified or unqualified candidates. Thornton's AEA listing gives his specialty as Public Employee Bargaining.

Some examples from LIAR:

- For a lazy candidate: In my opinion, you will be very fortunate to get this person to work for you.
- To describe a person who is totally inept: I most enthusiastically recommend this candidate with no qualifications whatsoever.
- To describe an ex-employee who had problems getting along with fellow workers: I am pleased to say that this candidate is a former colleague of mine.
- To describe a candidate who is so unproductive that the job would be better left unfilled: I can assure you that no person would be better for the job.
- To describe a job applicant who is not worth further consideration: I would urge you to waste no time in making this candidate an offer of employment.
- To describe a person with lackluster credentials: All in all, I cannot say enough good things about this candidate or recommend him too highly.



Examples

- Law offices, insurance companies
- Warranties
- Designer labels
- Education
- Full product line or flagship product
- Automotive and other lemons
- Reverse split

Response to a Crisis

- Tylenol
- Whole product line at risk
 - Baby products, other health products
- Johnson & Johnson response
 - Open with press
 - Customer safety first
 - Cooperate with authorities
- J&J Obtained
 - Good publicity (free advertising)
 - Rescued Tylenol brand
 - Improved brand reputation

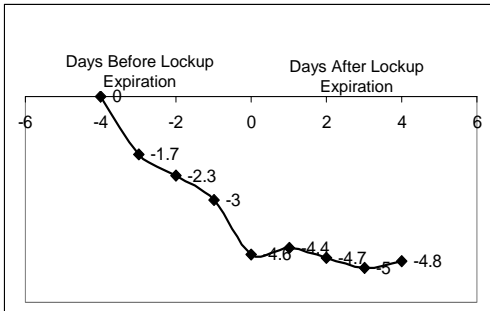
Response to a Crisis, Part II

- Perrier's benzene disaster
- Intel Pentium bug
- Jack-in-the-Box
- Odwalla

Lockup Expiration

- Management can't sell after IPO during "lockup" period
- Management sales of stock suggest bad news
- Evidence is weak, but market doesn't like lockup expiration

Stock Performance Around Lockup Expiration



Warranties

- Audi card
- Hyundai 's ten year automobile warranty
- Warranty cost is lower when the product is more reliable
- Craftsman tools lifetime warranty

Product Depth

- A full product line suggests:
 - Not "testing the waters"
 - Not running out of money
 - In the industry to stay
 - Will support old products
- Flagship products suggest
 - All of the above
 - Technological superiority
 - Other products worth a premium

Model

- Two quality levels, H and L
- Costs c_H and c_L
- Willingness to pay $p_H - c_H > p_L - c_L$
- Consider an introductory price p_0 followed by price p thereafter
- It is reasonable for consumers to believe that an introductory price signals quality if high quality firm finds it profitable, low quality not

Formula

- Low quality finds it unprofitable if $p_0 \leq c_L$
- High quality finds it profitable if

$$0 \leq p_0 - c_H + \sum_{t=1}^{\infty} \delta^t (p - c_H) = p_0 - p + \frac{p - c_H}{1 - \delta}$$

- Set $p = p_H$ and $p_0 = c_L$ to obtain

$$(1 - \delta)c_L + \delta p_H \geq c_H$$

Introductory Offers

- Low enough so that sale is profitable *only* if there is repeat business
- Problem: low price may signal low quality, or create expectations of low prices
- Solution: visibly spend money ("burning money")

Some introductory offers

- Celtic sea salt
- Artery cleaner
- Rainforest preservation
- Business ethics
- Geese repellent
- Bulk plankton

Other Signaling

- Entry deterrence
 - Chain store paradox
 - Low price signals low cost, bad market
 - Low prices deter entry
- Failure of complementary good
 - Cannot detect source of failure
 - Solutions: bundling, education
- Union/management signaling patience in a strike
 - Management signals low profits

Ginger and Solotrek

