Abstract:

We study markets for sensitive personal information. An agent wants to communicate with another party but the revealed information can be intercepted and sold to a third party whose reaction harms the agent. The market for personal information induces an adverse sorting effect, such that the sensitive information is allocated to those types of third parties who harm the agent most. In equilibrium, this limits information transmission by the agent, but never fully deters it. We also consider agents who naively provide information to the market. Their presence renders traded information more valuable and, thus, harms sophisticated agents by increasing the third party’s demand for information. Regulatory interventions that only modestly increase the cost of selling information in the market may hurt the naive agent without helping the sophisticated agents.