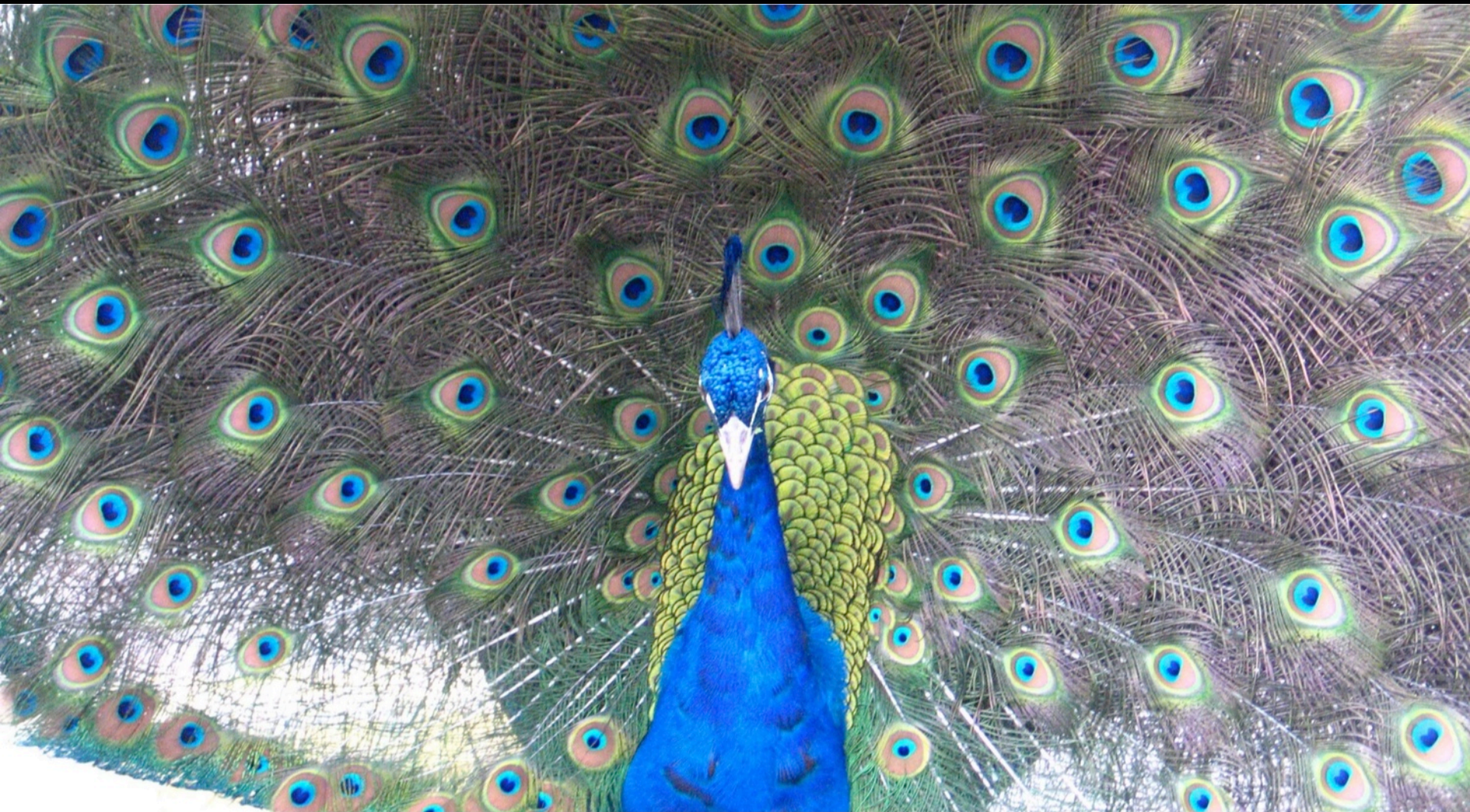


# Signalling, the universe and everything

A theory of harming yourself to show  
off

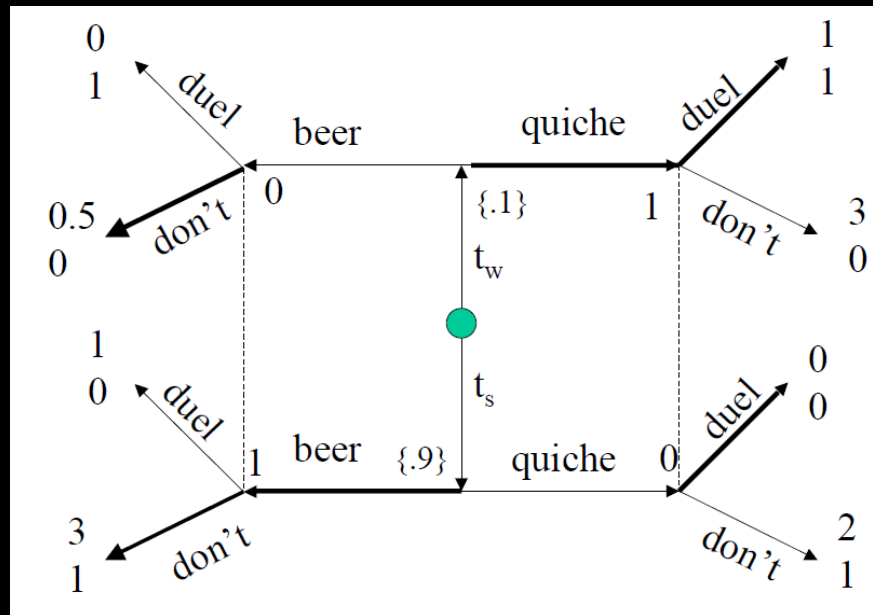
Sotiris Georganas

What do peacocks and investment bankers have in common?



# When?

- Signalling can work if separating equilibrium exists



# Conditions

- Asymmetric information: some hidden quality
- Different signals available
  - Only as indirect indication of underlying quality
- Heterogeneity of types
  - Not the same cost of sending the signal
  - “imitation costly”
- Big enough benefit of sending a successful signal

# Where?

- Advertising
  - Burning money as a signal of quality
- Job market (Spence 1973)
  - Education is a signal, *if* exams/studies hard enough!
- Financial markets
  - Successful IPOs: owners have to send good signals
    - Keep many shares
    - Oversubscription!
  - Bond issuers do not grab all money on the table
    - Don't look desperate!

# Outside economics

- Sexual selection/evolution
  - Signal of underlying quality, not stating the obvious
  - If signal hard enough to give
    - Seemingly self harmful behavior - “handicap”
  - Examples:
    - Stotting gazelles when predator close
    - Peacocks’ tails
    - Humans!