

Abstract

Cheap Talk Among Trustors as a Reputation-Building Mechanism in the Trust Game

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The exchange of information about third parties is ubiquitous in most social and economic environments. It includes behaviour like word-of-mouth, reference letters and gossip. Despite the fact that for the most part it consists of cheap talk, its prevalence suggests it performs an important social function. We provide experimental evidence on how cheap talk communication among networks of trustors efficiently generates and propagates reputational information. We demonstrate that cheap talk among trustors significantly improves trust and trustworthiness. The transmission of information among trustors works as a screening mechanism for trustors and the knowledge of its existence and accuracy triggers reputational concerns on the part of trustees.