

The Impact of Exogenous Information Acquisition on Giving

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ABSTRACT

The charitable giving market accounts for 2% of GDP and is crucial in addressing important social issues. In an attempt to improve market efficiency, the last decade has seen an emergence of charity rating agencies, such as Charity Navigator and CharityWatch. These agencies provide donors with information about charities' financial health and program effectiveness. Besides helping donors choose among multiple charities, access to such information is considered by many practitioners to encourage more charitable giving. However, it is not clear in the literature whether informed donors on average contribute more than uninformed ones. This paper aims to investigate the ability of information to increase charitable giving and cooperation. The theoretical model in the paper treats information about the value of a public good as exogenous and investigates whether providing information about the project's value increases expected giving. Since donors may vary in their motivations for giving, it is important to investigate how donors' willingness to give, or their altruism level, impacts their response to information. The experimental findings from a pilot study and a preliminary theoretical analysis suggest that the altruism level of donors plays an important role in the way donors respond to information. While information has the potential of increasing average giving for less altruistic population, it may in fact reduce expected giving when the donor population is more altruistic. The reason for this is that less altruistic donors use information to increase giving when they obtain good news about the project's value. In contrast, more altruistic donors use information to withhold giving upon obtaining bad news. The findings of this study have significant policy implications for the charitable giving sector and policy makers who aim to increase public goods provision and cooperation in the society. The findings will inform policy makers about which fundraising strategies to employ for different target groups. Ultimately, this will help improve market efficiency.