

Accepted Manuscript

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PII: S0014-2921(18)30083-7  
DOI: [10.1016/j.euroecorev.2018.05.005](https://doi.org/10.1016/j.euroecorev.2018.05.005)  
Reference: EER 3149

To appear in: *European Economic Review*

Received date: 28 September 2016  
Accepted date: 22 May 2018

Please cite this article as: Petra Loerke, Andras Niedermayer, On the Effect of Aggregate Uncertainty on Certification Intermediaries' Incentives to Distort Ratings, *European Economic Review* (2018), doi: [10.1016/j.euroecorev.2018.05.005](https://doi.org/10.1016/j.euroecorev.2018.05.005)

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# On the Effect of Aggregate Uncertainty on Certification Intermediaries' Incentives to Distort Ratings\*

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May 13, 2018

## Abstract

We analyze a certification intermediary's incentives to distort ratings in a model with a monopolistic profit maximizing certification intermediary, a continuum of heterogeneous sellers, and a competitive market of risk-neutral buyers. The value of a seller's good is known to the seller and observable by the certifier, but not by buyers. Sellers can choose to get a rating. The certification intermediary can reveal a signal of arbitrary precision about the quality of the good. In contrast to the existing literature, we allow aggregate uncertainty. As in the existing literature, one rating class is optimal. However, the certification intermediary does not generally choose a socially optimal cutoff: the certifier is more likely to be too lenient if the distribution of aggregate uncertainty has a lower mean, a higher variance, and is more left skewed. It is more likely to be too strict if the opposite holds.

**Keywords:** Certification intermediaries, rating agencies, aggregate uncertainty, financial crisis

**JEL-Classification:** C72, D42, D82

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\*We want to thank Dirk Hoffmann, Raphaël Levy, Leonard Nakumura, Martin Peitz, Artyom Shneyerov, André Stenzel, Joel Shapiro, Ernst-Ludwig von Thadden, Thomas Tröger, and participants of HIOC 2011 in Boston, EARIE 2011 in Stockholm, the SFB TR 15 Meeting 2011 in Tutzing, the MaCCI Competition and Regulation Day 2014 in Mannheim and seminars at the University of Mannheim and at Concordia University, the editors Jörg Oechssler and Steffen Huck, the associate editor, and three referees for their helpful comments. The authors acknowledge financial support from the Deutsche Forschungsgemeinschaft through SFB-TR 15 and project PE 813/2-2. The opinions expressed in this paper are those of the authors and should not be regarded as those of NERA Economic Consulting. This paper previously circulated under the title "Crises and Rating Agencies".

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