

Information Design under Falsification

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Abstract: We derive an optimal test when cheating is possible in the form of type falsification. It exploits the following trade-off: while cheating may lead to better grades, it devalues their meaning. Optimal tests can be derived among cheating-proof ones. Our optimal test has a single 'failing' grade, and a continuum of 'passing' grades. It makes the agent indifferent across all moderate levels of cheating. Good types never fail, but bad types may pass. Optimal tests deliver at least 50% of the full information value.