

Abstract

Fraud in markets for preventive services is persistent and pervasive. Examples include preventive dental care and automotive maintenance intended to prevent problems that, if they materialized, would require costly treatment or repair. The market is modeled as a stochastic dynamic game of incomplete information in which the players are customers and service providers. It is analyzed using the notion of weak perfect Bayesian equilibrium. The services provided are credence because the customers lack the expertise necessary to assess the need for the recommended service both ex ante and ex post. In such markets, fraud is a prevalent equilibrium phenomenon that is somewhat mitigated by customers' loyalty and providers' reputation