

Stigler G I. The economics of information. *J. Polit. Econ.* 69:213-25, 1961.
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The amount of information that economic actors collect before making decisions, and the principles on which they collect the information, are investment acts, to be studied by standard economic theory. Rules for the efficient collection of information are derived using the statistical theory of extreme values. An application is made to advertising. [The *Social Sciences Citation Index*® (SSCI®) indicates that this paper has been cited in over 370 publications since 1966.]

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"Economists almost invariably assumed that the individuals with whom their theories were concerned possessed complete information on the things they dealt with: prices and technologies. One corollary was that there would be only one price for a commodity in a market: no buyer would pay more than the lowest price offered by sellers, and no seller would offer his good at less than the highest price offered by a buyer. Yet there is a dispersion of prices at a given time in almost every market. The dispersion is small when the product is standardized and when it is quoted on an organized exchange, for example, shares in IBM. The dispersion is wider for new automobiles, and wider still for workers' wages.

"These facts led me to propose a theory of the economic determination of the amount of information people would possess. For example, an individual will search

more (learn more price offers) if he spends more on the good, or if the dispersion of prices among sellers is larger, or if he is a regular patron (rather than, say, a tourist) in a market.

"I may quote my Nobel Lecture—the award was based largely on the work—on the reception of the paper.

"The proposal to study the economics of information was promptly and widely accepted, and without even a respectable minimum of controversy. Within a decade and a half, the literature had become so extensive and the theorists working in the field so prominent, that the subject was given a separate classification in the *Index of Economic Articles*, and more than a hundred articles a year are now devoted to this subject.

"The absence of controversy certainly was no tribute to the definitiveness of my exposition. I had chosen fixed sample rather than sequential analysis, which a majority of later economists prefer. I had not presented a general equilibrium solution in which the behavior of both sides of a market is analyzed, and that step proved difficult to take. I had done little with information on quality and other variables, in contrast to price, although I soon extended the approach to a different kind of information in the theory of oligopoly. I had not applied the theory to the problem of unemployment, a literature initiated by an important paper by Armen Alchian.¹ All I had done was to open a door to a room that contained many fascinating and important problems.

"The absence of controversy was due instead to the fact that no established scientific theory was being challenged by this work: in fact, all I was challenging was the neglect of a promising subject. Moreover, the economics of information was susceptible to study by quite standard techniques of economic analysis. The theory immediately yielded results which were intuitively or observationally plausible. Here was a Chicago theory that didn't even annoy socialists!"²

1. Alchian A. Information costs, pricing, and resource unemployment. (Phelps E S, ed.) *Microeconomic foundations of employment and inflation theory*. New York: Norton, 1970. p. 27-52.
2. Stigler G I. The process and progress of economics. *Les prix Nobel 1982*. Stockholm, Sweden: Almqvist & Wiksell, 1983. p. 253-72.