Competition and Errors in Breaking News

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Abstract

Reporting errors are endemic to breaking news, despite the fact that accuracy is prized by consumers. I present a dynamic model of breaking news to understand the strategic forces behind reporting errors. In this model, news firms are rewarded for reporting before their competitors, but also for making reports that are credible in the eyes of consumers. Errors occur when firms *fake*, reporting a story despite lacking evidence. Firms can alternatively choose to be *truthful*, only reporting a story if they have confirmed it is true. I establish both existence and uniqueness of an equilibrium. Errors in equilibrium are driven by both a lack of commitment and by competition. Firms cannot commit to telling the truth, though it may be optimal to do so: they are tempted to fake after their credibility has been established, even in the absence of competition, thus capitalizing on the inability of consumers to detect fake reports. In part, competition exacerbates faking by giving rise to a preemptive motive, thus incentivizing firms to report in haste. Furthermore, competition introduces observational learning, which causes errors to propagate through the market. This equilibrium also gives rise to rich dynamics. Firms become gradually more credible over time whenever there is a preemptive motive. This increase in credibility rewards firms for taking their time, and thus endogenously mitigates the haste-inducing effects of preemption. A firm's behavior will also discretely change in response to a rival report. This can take the form of a *copycat effect*, in which one firm's report triggers an immediate surge in faking by others. In addition to these core results, I perform comparative statics analysis and consider an extension in which firms have heterogeneous learning abilities.