**Confusion, Competition and Polarization**

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**Abstract:**

Do firms seek to make a market transparent or do they want to manipulate the perception of product characteristics?

We study this question in a duopoly model with differentiated goods.

By obfuscating the properties of their products or by suitable advertising activities, firms can introduce noise to the perceived valuations of consumers.

We show that such noise is harmful for firms if the true preference distribution is polarized, so that the share of indifferent consumers is small.

In such situations, firms seek to educate consumers.

On the contrary, obfuscation arises in equilibrium if the preference distribution features a concentration of undecided consumers.

Compared to the case of homogeneous goods, the welfare consequences of obfuscation are more severe as consumers may not only pay higher prices, but also end up with the wrong good.