**Multilevel Marketing: Pyramid-Shaped Schemes or Exploitative Scams**

**Abstract:**

We find conditions under which a scheme organizer is able to design a pyramid scam to exploit partially sophisticated agents.

Further, we characterize the pyramid scams in which such agents would be willing to participate.

Motivated by the growing discussion on the legitimacy of multilevel marketing schemes and their resemblance to pyramid scams, we highlight the key differences between the two types of schemes and characterize the optimal multilevel marketing scheme when agents are fully rational.