

How Do Investment Ideas Spread through Social Interaction? Evidence from a Ponzi Scheme

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ABSTRACT

A unique data set from a large Ponzi scheme allows me to study word-of-mouth diffusion of investment information. Investors could join the scheme only by invitation from an existing member, which allows me to observe how the idea spreads from one person to the next based on inviter-invitee relationships. I find that the observed social network has a scale-free connectivity structure, which significantly facilitates the diffusion of the investment idea and contributes to the growth and survival of the socially spreading Ponzi scheme. I further find that investors invest more if their inviter has comparatively higher age, education, and income.

Supporting Information

Filename	Description
jofi12822-sup-0001-InternetAppendix.docx 331.4 KB	Appendix S1: Internet Appendix.
jofi12822-sup-0002-ReplicationCode.zip 394.8 KB	Replication Code.

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