ARCHITECTING EXPLOITATION: THE “TECHNICALLY FINE” DIGITAL PIPELINE

HOW PLATFORM DESIGN AND REGULATORY DRIFT COMPROMISE YOUTH CONSUMER DEFENCES

by

Dante Cosimo Hin-Gasco

APPROVED BY SUPERVISORY COMMITTEE:

_____

Roger Malina, Chair

_____

Hong-An Wu

_____

Laura Imaoka

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To my loving partner Komal, my primary motivation for everything I do.

To my parents, for raising and supporting me all these years.

To the boys Fede, Luc, and Matteo, for the boys.

To Isa, for hosting me in Boston during the final stretch of my journey.

To my friends in Dallas.

To my one and only classmate Muxi.

To my friends in Milan, Cosca and otherwise.

To my friends everywhere else.

To Hanshi Bill and Sensei Karen.

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by

DANTE COSIMO HIN-GASCO, BS

THESIS

Presented to the Faculty of

The University of Texas at Dallas

in Partial Fulfillment

of the Requirements

for the Degree of

MASTER OF ARTS IN

ARTS, TECHNOLOGY, AND EMERGENT COMMUNICATIONS

THE UNIVERSITY OF TEXAS AT DALLAS

May 2026

ACKNOWLEDGMENTS

I would like to express my sincere gratitude to my advisors Roger Malina, Laura Imaoka, and Hong-An Wu for their guidance and assistance with my thesis. Interactions with each during my time studying at University of Texas at Dallas was invaluable in the shaping of my current academic and professional interests. Additionally, I would like to thank my UTD counsellors and professors: Shilyh Warren, Larrlenski Jackson, Joseph Nguyen, xtine Burrough, Fred Curchack, Katherine Schweers, and Diana Rojas. My experience pursuing this MA was truly life-changing, and I cannot express how much these two years have changed my outlook on the future.

I extend gratitude for my parents and the environment they fostered for me, which instilled me with the foundational digital literacy that ultimately inspired the core arguments of this thesis.

Lastly, on a personal note, I would like to thank my wonderful and supportive wife. She has been the motivating force behind me every monumental step of my life journey since finishing my undergraduate degree in Milan to now. In the time it took me to write this thesis, we became engaged and shortly after, married. Her unwavering support and constant insight made the completion of this master's degree possible.

April 2026

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Dante Cosimo Hin-Gasco, MA
The University of Texas at Dallas, 2026

Supervising Professor: Roger Malina

The rapid convergence of digital industries consistently outpaces legislative action, resulting in regulatory drift that allows for the systemic exploitation of vulnerable youth demographics. This research synthesises behavioural psychology and marketing theory, applying the Elaboration Likelihood Model (ELM) and Persuasion Knowledge Model (PKM) to modern digital user interfaces. A qualitative multi-case study analysis was conducted on three distinct areas of focus: social media influencer advertising, video game monetisation (CS:GO loot boxes), and the "gamification" of financial prediction markets (Kalshi, Polymarket). The findings conceptualise the term of "technically fine" loopholes to explain how platform architects intentionally use visual friction, parasocial dynamics, and variable ratio reinforcement to supress Persuasion Knowledge, bypassing the intent of consumer protection laws while remaining legally compliant. This problem is a systemic issue and requires a complete inversion of the corporate financial

incentive structure. Grassroots adult digital literacy is necessary to create market friction, which

in turn contributes to constituent pressure required to force comprehensive top-down legislative reform.

Keywords: regulatory drift, persuasion knowledge model, digital gamification, youth consumer protection, technically fine loopholes, elaboration likelihood model

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CHAPTER 1

INTRODUCTION

1.1 CONTEXT

Rules exist to govern and regulate. Rules are put in place by a governing body to control certain behaviours. Rules in theory incentivise behaviours that contribute to the overall good of society, thwarting or disciplining those that seek to do harm or take advantage of others. Rules generally need to be documented in written form for the awareness of those who are governed. Rules have a static existence, while the world that they govern is constantly changing. As society evolves and technology progresses, the rules that are meant to govern society may fall behind. This creates loopholes, which are gaps in these rules, that allow for operation outside the intended confines of the rules, for better or for worse.

A discussion must be had about loopholes in the digital age, with a focus on digital advertising and marketing as the primary case study. This research is supplemented with case studies of other related digital industries, with the common theme of the exploitation of loopholes in regulatory systems for their benefit.

Advertising and marketing have always existed in a moral grey area between the simple presentation of information and persuasion. The goal of a good marketing campaign is to change the consumer's opinion on something, or to sell them on a product. However, the way in which

companies go about attempting to influence consumer decisions has changed throughout the evolution of digital media.

The landscape of digital media and the ways consumers interact with online platforms are evolving at an unprecedented pace. There is a growing convergence of the seemingly disparate industries of video games, social media, and "gamblified" financial markets, blurring the lines between entertainment and commerce. The rapidity of architectural innovation in these industries outpaces legislative efforts to regulate, allowing for unethical practices by platform designers through "technically fine" loopholes: previously established regulations, derived from twentieth-century media applications, are fundamentally unequipped to moderate or restrict the sophisticated psychological manipulation present in modern digital environments.

1.2 PROBLEM STATEMENT

The title of this thesis, "*Technically fine"* is referring to the various legal and regulatory loopholes used to advertise products and services in ethically questionable ways. These practices are technically entirely legal; however, a critical examination reveals that many of these loopholes are bad faith interpretations of the law. No law perfectly covers all cases or is entirely up to date: a problem that is becoming increasingly evident as technology continues to advance at a pace that lawmakers cannot keep up with.

While this problem applies to all areas of law, this thesis focuses specifically on influencer marketing, prediction markets, and digital game economies. As previously discussed, common practices in social media influencer marketing raise ethical concerns with ad

recognition. Prediction markets are a fairly new innovation: defined as speculative exchange platforms, the financial trading system is used in practice primarily for sports betting and wagering against other users about the probabilities of events occurring. Many digital game economies have virtual economic systems that have normalised pro-gambling and consumerist tendencies to their audiences.

Case studies and analysis will be conducted on social media influencing trends on TikTok and YouTube, the Counter Strike 2 digital game economy, and financial prediction markets Kalshi and Polymarket. The aim of this thesis is to demonstrate how these three seemingly disparate topics paint a concerning larger picture, all contributing to the disfiguration of society's youth development. There is no single solution to what is occurring; however, the first step is to raise awareness about the unsustainability of the current environment in which today's youth are being raised in.

1.3 PROFESSIONAL MOTIVATION

I am currently working as the Marketing Operations and Social Media Manager at a business-to-business (B2B) software-as-a-service (SAAS) startup. My professional expertise working in this field is B2B marketing endeavours and communications. I have been in the industry for over 5 years and am deeply versed in marketing theory. I have a bachelor's degree from Bocconi University in Business, Economics, and Finance, with an elective specialisation in Marketing and Communications. My undergraduate thesis focused on Parasocial Marketing: specifically researching the efficacy of utilising social media influencer endorsements to promote

products to their viewers. The combination of academic theory and daily operation experience provides me with a comprehensive, operation perspective on digital campaigns.

Intense industry pressure to optimise digital metrics and hit key performance indicators (KPIs) forces a narrow operational focus. The reliance on quantitative data naturally results in a systemic disregard for any qualitative dynamic. The "human element," consumer goodwill, and societal impact have been pushed aside because quantitative frameworks struggle to adequately capture their long-term effects on corporate profitability

While my operational experience is in B2B, the fundamental profit-driven frameworks are applicable universally. Witnessing how easily deceptive practices can become normalised in the pursuit of metrics motivated me to investigate the repercussions of these same tactics to optimise business performance when applied towards the highly vulnerable demographic of youth consumers.

1.4 RESEARCH SCOPE & QUESTIONS

The aim of this research is to explore:

- How have shifts in advertising formats changed how youth audiences recognise persuasive intent?
- How does persuasion knowledge, parasocial relationships, and adolescent risk perception interact with these formats?
- How do incentive structures in these media platforms and advertising deals motivate unethical behaviour?
- What kinds of regulatory, platform, or design changes could be made to help mitigate these problems?

CHAPTER 2

LITERATURE REVIEW & THEORETICAL FRAMEWORK

2.1 MARXIST THEORY AND STATE APPARATUSES

Louis Althusser was a 20th-century French Marxist philosopher whose development of structural Marxism provides a crucial framework for understanding how modern digital industries exploit "technically fine" loopholes. By shifting the focus of Karl Marx's work from individual agency to macro-level socio-economic structures, Althusser outlined the mechanisms of power in *Ideology and Ideological State Apparatuses* (Althusser, 1970), Althusser introduces the concept of "State Apparatus": the mechanism by which the ruling class maintains power and dominance over the working class. The structure of "State Apparatus" is separated into two distinct categories: Repressive and Ideological. Repressive State Apparatus (RSA) is the physical and state enforcement of desired oppressive ideologies through police enforcement, military activity, governmental administration, and the court system. Ideological State Apparatus (ISA) instead operates, as the name suggests, through ideology over confrontation. ISA targets the core beliefs and fundamental norms of a society so that they conform to a system that benefits the ruling class. The educational system, religious ideology, gender roles, media, and culture are all examples of ISA.

In traditional Althusserian theory, people are completely moulded by the forces of the State Apparatus. I disagree with this outlook on a fundamental level. Rationally, while the machinations of the State Apparatus are present, adults still possess critical thinking and free will derived from mature cognitive abilities. With that stated, the concept of ISA provides an

excellent framework for understanding how the topics of social media, prediction markets, and video game economies create influence. These topics all contribute to a larger “digital ISA”, which is uniquely dangerous due to the target demographics these industries prioritise: children and young adults, whose minds are still developing, and who lack fully developed cognitive agency.

2.2 THE EVOLUTION OF MEDIA REGULATION

According to Section 5 of the Federal Trade Commission (FTC) Act, “unfair or deceptive acts or practices” are banned. Disguising an advertisement to look like neutral content through the omission of a disclosure would fall under these practices. Specifically, regarding social media, the FTC states that all social platforms must clearly reveal “material connections” to brands, such as payments, gifts, and affiliate links. While these laws do exist, the enforcement is where issues start to arise.

Policing the sheer amount of influencer content that comes out daily is near impossible. Furthermore, the specifications of what counts as disclosure of an advertisement can be up to interpretation. As a result, there are many loopholes in which the disclosure is so easily hidden that it may as well not even be there. This is the legal way to employ “unfair and deceptive acts”. Ethically, this reinforces the concept of “technically fine”. These corporations are not breaking any laws, however an examination of laws such as Section 5 of the FTC Act implies a goal of preventing this exact kind of behaviour: sponsorship and endorsement being technically disclosed but functionally downplayed.

The requirement for clear text disclosure in the FTC framework assumes that the consumer is rational and processes things logically. However, as will be explored in Section 2.4, youth audiences mainly process influencer content emotionally. Through parasocial relations and other mental bypasses, there is a passive consumption and exposure to this content which results in cognitive processing that bypasses logical evaluation.

The FTC has itself recognised the limitations of relying solely on rational cognitive behaviour recently publishing articles discussing related topics. *Bringing Dark Patterns to Light* (Federal Trade Commission [FTC], 2022) discusses the use of obscure tactics to subvert consumer choice, defining dark patterns as "manipulative design practices." *Protecting Kids from Stealth Advertising in Digital Media* (FTC, 2023) focuses on the psychological impact of obscure and unclear advertising on young audiences. From these, the FTC recommends a strict division between organic and advertising content for children.

Identifying an issue and implementing change to combat it are drastically different measures. The issue arises in the policing of this updated regulatory stance. The FTC does not have the power to actually enforce these restrictions in the face of the sheer quantity of activity that occurs on the internet. Combined with the often-automated algorithmic processes that dictate the consumption of media on these internet platforms, the FTC is effectively paralysed to act on the enforcement of these policies. The structural gap between theory and action is where the "technically fine" loophole thrives.

"Technically fine" loopholes are not exclusive to social media advertising. The ways in which they manifest are influenced by the forces at play in their respective industries. In the video game industry, the best example is that of loot boxes. As analysed in Section 2.5, digital

game economies utilise variable ratio reinforcement schedules to achieve a similar psychological bypass to that of parasocial bonds. While the method is different, the result is the same scenario of exploitation of youth vulnerabilities for profit. Geographical differences must also be considered: this issue is not exclusive to the United States of America.

While the USA has approached this topic with a heavy emphasis on deceptive marketing tactics and advertisement disclosure, the European Union is instead targeting digital monetisation tactics in the broader lens of general consumer protection. In 2020, the European Union Parliament conducted a study on loot boxes and consumer protection (Cerulli-Harms et al., 2020), resulting in various important conclusions. Firstly, attempting to regulate video game loot boxes under national gambling regulation would result in a fragmented global gaming market. Due to the digital nature of the internet, unless every country found a way to unite in establishing uniform regulation, there would always be inconsistencies between national law.

This fragmentation is evident in countries such as Belgium and the Netherlands passing legislation in the form of the Belgian Gaming Act and the Dutch Betting and Gambling Act respectively. Irrespective of the legal efficacy of these laws, general consumer sentiment in the Belgian and Dutch gaming communities is that of anger and outrage. The internet is not restricted to just Belgium and the Netherlands. As such, consumers in these nations are forced to watch other neighbouring countries engage in these prohibited activities. Legislative action unintentionally vilifies the governing body in the eyes of the consumer. Additionally, due to technologies such as virtual private networks (VPN), consumers are able to change their digital location to a geographical location that does not prohibit these practices to access banned material. In addition to consumer sentiment, gaming publishers such as Electronic Arts have

successfully overruled the Dutch legislative changes due to the legal definition of gambling and how it applies to monetisation structures in their games.

Secondly, the research brought into question current efforts to educate about spending mechanisms in video games. It called for the systematic verification of these efforts to ensure the efficacy of these educational initiatives. The conclusion was to draw upon existing consumer protection law in an attempt to harmonise regulations across the digital gaming sphere.

The theoretical goal of harmonising consumer protection law faces a significant issue: enforcement. In his 2023 evaluation of loot boxes, Leon Xiao highlights the limitations of localised regulatory efforts when existing in a global digital market. He analysed compliance rates of local regulation targeting loot boxes to expose the illusion of effective regional enforcement. An empirical audit of the Belgian mobile gaming market revealed that this seemingly severe legal action was largely performative. Of the 100 highest-grossing games on the iPhone app store, 82% of them sold randomised loot boxes despite the Belgian Gaming Act. Those that chose to follow this newly established regulation did so to protect pre-existing reputation. This consisted primarily of large gaming studios and publishers who value their public perception. Additionally, the study found that 80% of games rated suitable for ages 12 and older contained these loot box mechanics. Xiao remarked that the performative nature of this regulation could be more detrimental than no regulation at all. This ban provided a false sense of security for consumers in the country, further concealing hidden and predatory monetisation tactics in these games.

The public failure of localised regulatory efforts such as Belgium and the Netherlands incentivise video game developers to ignore localised bans. With the knowledge that national

regulation lacks the capacity to exert influence at a global scale, monitoring every digital storefront worldwide, the regulatory battle against predatory tactics in the EU mimics that of the paralysis encountered by the FTC in the USA.

In efforts to regulate despite the presented adversity, it was made mandatory to publicly display the probabilities of loot box contents. While this is intended to improve consumer experience by providing transparency similar to the FTC "Paid Partnership" disclosures discussed later in Section 2.4, these regulatory efforts require the assumption of logical consumer behaviour and rational purchasing decisions. In 2023, Xiao also conducted research on compliance with UK loot box self-regulations. This empirical study presented similar findings to that of Belgium's regulations: only 64% of the highest grossing games that featured loot boxes actually disclosed their odds, despite the regulation. Comparing this to China's much stricter regulation in which probability disclosure is mandated by law rather than suggested by industry self-regulation, 95.6% of games were compliant in loot box odds disclosure. The conclusion drawn from this study was that self-regulatory compliance guidelines are inefficient and will be ignored if there is no enforcement from the governing legal body.

The common theme of Xiao's 2023 research on regulations targeting loot boxes is that law cannot be effective if it is not enforced. Furthermore, the good faith intention of the law requires case-by-case analysis. "Technically fine" loopholes are unfortunately a systemic, global issue. They are not limited to specific industries or regulatory bodies. Where there is economic incentive to bypass restriction, companies will find a way to do so. The digital medium operates primarily on psychological and emotional exploitation, making it fundamentally difficult to regulate in a meaningful and effective way.

2.3 THE VULNERABILITY OF YOUTH AUDIENCES

Friestad and Wright's (1994) work, *The Persuasion Knowledge Model: How people cope with persuasion attempts,* provides a basis for the claim that children are more susceptible to advertising. The Persuasion Knowledge Model (PKM) is a study on people's recognition of attempts to influence them. Some of the key takeaways from this research are in relation to the growth of people's awareness over time. They coined the term "Persuasion Knowledge" to describe how over time, people build up their ability to understand what marketers do, their motivations, and the marketing tactics themselves. Friestad and Wright explain an individual's reliance on three knowledge structures during a persuasion event: Agent knowledge, Topic knowledge, and Persuasion knowledge.

Each of these knowledge bases contribute to one's ability to not be swayed prematurely by advertising. In this study, PKM has proven that one's ability to recognise persuasion is developmental, meaning that children and young adults often lack this ability. Even those who successfully recognise advertisements may struggle to understand the underlying motivations behind an ad, demonstrating a dangerous relationship that enables abuse from persuaders.

This study perfectly explains the concept of advertising literacy. The acknowledgement that children and young adults often lack advertising literacy further shows the importance of proper regulation on advertising and marketing tactics that target these demographics. Influencer-led advertising content is more dangerous due to the ways in which this content and advertising medium blurs the lines, being difficult even for adults to recognise at times.

Friestad and Wright's PKM model serves as a starting point, but their research is not explicitly focused on children and developing minds. Rozendaal and Buijzen (2023) are both professors at the Erasmus School of Social and Behavioural Sciences. With their specialisation in the intersection between advertising and youth social behaviour, the 2023 International Journal of Advertising article titled *Children's vulnerability to advertising: an overview of four decades of research (1980s–2020s)* offers an eloquent summarisation of the findings of the last 40 years with regards to this vulnerability.

Initial research on children's susceptibility to advertising began in the 1980s, with early studies being conducted specifically with regards to advertising for alcohol and tobacco products. With broadcast television being the primary source for advertising media in this period, it was the main focus for their studies. Broadcast television advertising was distinctly marked, with television programmes having advertisement slots, and explicit mention of sponsored show segments. This distinction made it easier for children to intuit the difference between when they were watching television programmes and advertisements. From a cognitive standpoint, the boundary between programme and advertisement worked as a trigger for a child's Persuasion Knowledge, affirming in the child's mind that a persuasion attempt was in progress. It also made it much easier for researchers to conduct studies on this topic, due to this fundamental separation.

The ways in which we consume media, however, have changed since the 1980s. With the World Wide Web becoming commercially available in the early 1990s, the digital revolution arrived. Information accessibility and the nature of media delivery were permanently modified through innovations such as social media, email, and web search. As society's consumption of media changed, advertising adapted accordingly. In the modern age, broadcast television lives in

the shadow of the colossus that is social media. Social media defines consumption trends, dictates topic virality, and most importantly, is far more accessible than traditional media.

Compared to the effort required to create and distribute media for broadcast television, any person with a device and an internet connection meets the requirements to create social media content. This accessibility gives the power of distribution to the same people that consume media content, reducing the barrier to entry for creatives. The result is an increase in the volume of new media content as well as an increased viability for more tailored, niche content that speaks to smaller audiences. Media consumption has become highly personalised due to the combination of this volume of new media and a shift from mass broadcast models to algorithmically directed feeds (Kuksa et. al., 2022).

Advertising in this personalised age of media can appear in many forms: influencer endorsements, stealth advertising, advergames, and personalised social media feeds. While all these forms of advertising are different in their own ways regarding intention and user interaction, they all blur the lines between entertainment and their commercial intent. The distinct boundaries that previously made it so easy to recognise a persuasion attempt are gone, and with them, the built-in safeguards for the cognitive safety of children.

The accumulated findings of contemporary research conducted on children's advertising literacy are summed up by Rozendaal and Buijzen: "These studies show that in comparison with television commercials children of all ages find it far more difficult to recognize these more contemporary advertising formats as a form of persuasion (Rozendaal et al., 2023)." The way these advertising mediums are seamlessly integrated into entertainment bypasses children's cognitive defences. Even with an understanding of advertising, it is not sufficient for these

children to always recognise a persuasion event in real time, neutralising Persuasion Knowledge, and allowing for real, developmental harm.

The American Academy of Pediatrics' (AAP) 2020 article *Digital Advertising to Children* (Radesky et al., 2020) shows some of the ways real, substantial effects have manifested due to modern advertising techniques. Focusing on the ways youth perception towards the consumption of high-calorie low-nutrient foods, tobacco, electronic cigarettes, alcohol, and drugs is altered, this policy statement shows that a child's inability to recognise obfuscated digital marketing techniques is no longer just an academic concern. While the focus of this paper is on cognitive and normative development rather than fast-food and substance abuse, this literature helps to validate the connection between youth exposure to advertising and cognitive effects by formally establishing it as a paediatric health concern.

Building upon the medical consensus, this policy statement from the AAP outlines how digital ecosystems exploit the cognitive immaturity of youth through persuasive design and personalised data tracking. Because these vulnerabilities are heavily researched and documented by medical and psychology professionals, the marketing practices that directly and actively target these vulnerabilities for profit must be recognised as inherently predatory. The reality of this marketing content directly reinforces the concept of "technically fine" loopholes. Corporations are incentivised to actively optimise their operations to exploit these developmental gaps in children. In a utopian-ideological setting in which the well-being of children and the prosperity of youth development is the utmost priority, it is the responsibility of the governing body to regulate and disincentivise these behaviours. It is a fundamentally structural issue that requires work from the ground up. While these integrated marketing strategies fully comply with

the rigid, outdated restrictions of current regulatory framework, they are designed to do the very thing that is seemingly prohibited by the rules to which they comply.

2.4 INFLUENCER MARKETING & PARASOCIAL RELATIONSHIPS

Parasocial relationships are one-sided friendships between viewers and an influential figure. This bond between the viewer and the influencers of media sources they consume is extremely powerful. Viewers of an influencer will consider, either consciously or subconsciously, the influencer as a close friend, and as such, be influenced by their beliefs, and their suggestions, more than the suggestion of a stranger.

Parasocial relations tie into influencer marketing with three specific topics: trust, authenticity, and perceived relatability. Firstly, someone with a parasocial bond is more likely to trust the word of the influencer. A product endorsement holds more value from someone you trust and respect. Secondly, authenticity plays a key part in our ability as consumers to identify persuasion. If the endorsement of a product comes off as inauthentic, one may identify the financial motivations behind the advertisement and understand that the claims may be inflated to make the product seem more appealing to them. Lastly, a parasocial bond allows for the viewer to relate to the influencer. Being a like-minded individual, with common shared interests, if the influencer likes a product, then surely the consumer will enjoy it too.

With the advent of broadcast television and radio programmes in the 1920s-30s, the primary form of advertising was single sponsor shows. An entire programme on the television was sponsored by a singular company or source, with multiple references to the sponsored material and pauses from the production for ad reads, e.g. “Lucky Strikes Your Hit Parade”.

From the 1950s, networks began to adopt a “magazine” style approach, selling short 30-60 second blocks of commercial space. This shift gave the network more control over production, as well as lessened the chance of scandal should there be issues with the sponsor. Now, instead of cancelling an entire show due to a sponsor issue, they could simply remove the controversial ads.

The commercial block format became the standard that the world is now used to today. However, with social media and digital influencers, the predominant form of advertising has returned full circle to this single-sponsor approach. While platforms like YouTube and Instagram still offer these traditional commercial blocks, the trends in efficient marketing practices have favoured single-sponsor brand endorsements from these influencers. From entirely sponsored content pieces to simply being the sponsor for an unrelated video topic, the close intimacy of social media influencers and their followers allow for a stronger chance to convert ad spend into sales.

With the audiences that consume social media influencer content and the forms in which sponsored products or services are advertised, the line between content and advertisement has become blurry. Influencer content covers a vast variety of topics, many of which naturally include products or services, either via reviews or recommendations. This creates a dynamic that further obfuscates the differentiation between paid advertising and natural recommendations. While this is a dynamic that has always been present to an extent within any form of media, social media particularly has mass usage from children and teenagers. This shift in advertising strategy, combined with a majority consumption base of young and impressionable children, has extremely concerning implications.

Recognising the influence social media has on consumer behaviour, the Federal Trade Commission (FTC) has taken regulatory action on both companies and the individuals behind "hidden advertising" influencer marketing campaigns. Starting with the landmark Lord and Taylor Settlement (2016), the FTC established their baseline stance towards the topic.

Firstly, regarding legal liability, Lord and Taylor had gifted a dress and paid 50 influencers ~$2-4000 to post a picture on their profiles. There were explicit instructions given to the influencers by Lord and Taylor about disclosing the fact that this endorsement was an advertisement. The FTC placed responsibility for this stunt on Lord and Taylor rather than the influencers promoting the dress, showing that the brand financing the advertising operation is ultimately responsible for the legal liability, and any infractions. Prior to this case, brands simply assumed that including boilerplate text about product disclosure in their advertising agreements was sufficient. This put the onus on brands to review their influencer endorsement media and demand modifications when this content was not compliant with the FTC's new regulations. Additionally, this case established that using a brand hashtag, in this case, #DesignLab (in reference to Lord and Taylor's campaign), was not sufficient advertisement disclosure.

In 2017, following the previous year's action towards brands over individuals, the FTC sent out a series of "educational warning" letters. These letters were sent directly to creators, signalling that liability was now also extended to the individuals committing these advertising infractions. The letters served as an effort to educate influencers on the FTC's new views towards advertising disclosure. This included their hard line against vague and ambiguous terminology for disclosure, as well as establishing the "above the fold" rule: disclosure must be within the first few lines of a social media caption, given that many platforms require further

user interaction to see the rest of a lengthy text post. The goal of this rule was to ensure that disclosure was easily visible and not hidden behind platform barriers.

Since establishing these regulations, the FTC has pursued numerous infractors. The 2020 Teami LLC case is a good example of financial punitive action being taken against a company that requested proper, FTC compliant, advertisement disclosure in their contracts with influencers, but lacked sufficient enforcement to ensure the contracted influencers actually abided by these rules. Teami was ultimately found liable for the deceptive advertising campaign due to negligence and lack of proper guideline enforcement.

In 2023, reflecting the shift in understanding mentioned in Section 2.2, the FTC updated their Advertising Endorsement Guide due to the evolution of social media content, placing an emphasis on more audio and visual components. In this update, the FTC also placed an emphasis on targeting youth audiences, formally acknowledging that children and youth audiences do not process advertising in the same way as adults, requiring even more explicit advertising disclosure for endorsements targeting this demographic. It also introduced the FTC's "Notice of Penalty Offenses" which allowed the FTC to bypass the traditional administrative process by immediately issuing punitive fines for future infractions.

Social media platforms have changed and evolved from their inception to comply with FTC regulations and not be found liable for deceptive practices. Built-in disclosure tools have been implemented on all social media platforms, such as "paid partnership" labels for posts on platforms such as Facebook and Instagram, a toggle for "commercial content" on TikTok, or an "includes paid promotion" checkbox when uploading videos on YouTube. Additionally, these platforms all have developed robust moderation and AI screening systems to detect content on

their platforms that does not comply with the FTC's guidelines, automatically scanning audio and captions, as well as purging fake accounts that lead to fabricated engagement metrics. Social media feed algorithms now consider the user's age settings when recommending content, and targeted advertising has become more restricted.

Historically, the structural foundation of the FTC's enforcement in the last decade relies on the primary aspect of the Persuasion Knowledge Model: the assumption that clear, standardised labels serve as an unmistakable cognitive trigger to advertising disclosure. When a user sees a "Paid Partnership" tag, the theory dictates that the user's Tactic Knowledge is activated, alerting them to the persuasive intent of the content, allowing for the user to raise their defenses before engaging with the media. While this is the theoretical intent of the FTC's actions, empirical research demonstrates the severe disconnect between the FTC's text-based enforcement and the psychological reality of the situation, especially regarding youth audiences.

Boerman and van Reijmersdal's (2020) research focuses on how disclosures and parasocial relations directly impact a child's understanding of selling intent. In an observational experiment applying PKM, participants ages 8 to 12 watched a video of a popular YouTube influencer promoting a branded food product. Half of the children were given explicit advertisement disclosure while the other half were simply shown the video that included the product endorsement. The research measured advertising literacy, brand memory, brand attitude, and desire for the product. The study found that when children correctly understood the disclosure, it activated their Persuasion Knowledge, improving the children's ability to recognise the video's persuasive intent. The recognition of persuasive intent resulted in an increase in

memory of the brand; however, this understanding of selling intent reduced their desire for the product.

The most interesting and relevant takeaway from this research with regards to this thesis is the influence the parasocial relationship had on the children's brand attitude. Children who did not experience a parasocial relationship with the YouTube influencer had a lower brand attitude and desire for the product, these children successfully and rationally applied Persuasion Knowledge to the situation. However, in the case of children who experienced a strong parasocial relationship with the influencer, the recognition of selling intent from the advertisement disclosure did not negatively affect brand attitude or product desire. The strong emotional bond between the children and the influencer essentially superseded all logical cognitive analysis.

The findings of this research imply that parasocial relationships act as a moderating variable, limiting the influence of traditional PKM theory. This implication also highlights how the FTC's regulatory efforts might be incomplete, failing to neutralise parasocial dynamics and potentially other unknowns when regulating the modern digital advertising landscape. This parasocial bypass is the ultimate "technically fine" loophole: an influencer advertisement may adhere to all legal guidelines while simultaneously leveraging morally nebulous dynamics to neutralise a user's cognitive defences.

Another model that can be analysed to explore the interactions between individuals and advertising is the Elaboration Likelihood Model (ELM). Coined by Petty and Cacioppo (1986), ELM focuses on the way a consumer cognitively processes the message of an advertisement.

Unlike PKM which addresses the anticipation of a persuasion attempt, ELM looks at how persuasive messaging is understood and how attitudes change as a result.

ELM dictates that there are two routes of cognitive processing: the Central and Peripheral Routes. The Central Route covers the active processing of data, with high-effort brain activity, logical analysis, and critical thinking. The Peripheral Route instead suggests low effort thought, with a heavy reliance on superficial cues, the subject's emotions, or mental shortcuts. The primary differentiation between the two routes lies in the subject's level of active engagement and intentionality. For Persuasion Knowledge to be applied successfully, the subject must be actively processing the information being presented to them through the Central Route. Action has been taken in the past towards tactics such as subliminal messaging, which capitalise on the malleability of the Peripheral Route and the role it plays in shaping our views.

Balaban et al.'s (2022) analyses social media influencers and their persuasive abilities through parasocial relations. The framework of ELM allows this research to display the way social media influences the cognition of youth. The parasocial relationship a child has with an influencer serves as a mental shortcut, providing the brain with the feeling that the content being observed does not need to be critically analysed. The medium of social media influencer content bypasses the natural cognitive defences, allowing for advertising to influence cognition unnoticed.

Social media inherently pushes consumption to the periphery. With algorithmic content feeds and the structure of social media platforms, there is less intentional thought from the consumer about the content being consumed. This underlines the issue with regulating solely based on PKM and advertisement disclosure. Even when disclosed, many of the ways in which

content is consumed create mental bypasses that highlight the importance of the moderation of this content. The regulatory framework is fundamentally broken, allowing for "technically fine" yet malicious strategies employed by corporations to remain legally compliant while exploiting the cognitive vulnerabilities of youth.

2.5 DIGITAL GAME ECONOMIES & GAMBLING

In 1971, the first commercial arcade video game, *Computer Space*, was released. In the following year of 1972 came the Magnavox Odyssey: the world's first home gaming console. While the technology did not catch on at first, these innovations paved the way for an entertainment revolution. The late 1970s were dominated by the Atari 2600, and the Nintendo Entertainment System (NES) released in 1985: the humble beginning for Japan's gaming and media juggernaut.

There were two distinct methods to generate revenue in the traditional video game industry: arcade cabinets and console games. Arcade cabinets, such as *Computer Space*, are physical terminals that house video games within them. Found at arcades, game centres, bowling alleys, malls, and any other numerous dedicated physical spaces, these games are accessed through a pay-per-play model. Players use coins or some form of payment to gain limited-time access to the game, and any subsequent time after finishing their session requires additional expenditure. Console games instead required a one-time purchase for the console and additional individual expenses for the video games themselves. The NES launched at a base price of $149.99, coming bundled with the legendary *Super Mario Brothers* and *Duck Hunt* games.

However, if one wanted to play other games such as *The Legend of Zelda* or *Mario Kart*, their respective physical game cartridges needed to be purchased separately.

These two video game monetisation strategies remained as the two pillars of the gaming industry up until the early 2000s, when new market innovations emerged. “Gachapon” is a style of Japanese capsule toy vending machine in which consumers pay a fixed amount for a random toy from a set of options. Often, this set contains toys of different rarities and desirability, with the more desirable and sought after toys often being exceedingly rare to obtain. These toys are often associated with popular brand intellectual property (IP), with collectors spending hundreds if not thousands of dollars to ensure they obtain complete sets of these toys. The term “Gacha” or “Gacha mechanic” is used to describe the act of purchasing these randomised chances for toys.

In 2004, the massively-multiplayer-online game (MMO), *Maplestory*, released a virtual Gachapon system. Modelled directly after the physical Gachapon machines in both intent and likeness, the digital Gachapon system allowed *Maplestory* players to receive randomised game pieces for real money. This virtual Gachapon system is widely considered the first instance of a digital “loot box” system in a video game: a consumable virtual item that provides a randomised selection of virtual items in a game, also known as “loot”.

With the success of *MapleStory’s* Gachapon machine, other companies started experimenting with this model of small, repeated transactions in their games. This monetisation model is now known colloquially as “microtransactions”. Asian video game studios adopted this model with the global video gaming market following shortly behind. In 2006, Bethesda, a video game studio based in Maryland, released a cosmetic downloadable content (DLC) for their best-selling game *Oblivion*. This DLC was simply a $2.50 purchasable microtransaction for cosmetic

armour for the character's horse in-game. While minimal in impact, this update for *Oblivion* served as a significant milestone for large video game developers (AAA) in the West.

As cell phone technology advanced, smartphones became a new gaming console of their own. Games for these devices, often referred to as "Mobile games", are perfectly suited to the monetisation structure of microtransactions. "Freemium" games were the result of mobile, free-to-download games with premium in-game content gated behind microtransactions. Many of these games had players compete against one another in global and regional leaderboards, resulting in a system in which the top players were forced to pay for advantages to stay on top. This dynamic is now described by the term "Pay-to-Win" (P2W).

In 2010, Valve Software released an update to their massively successful game *Team Fortress 2* (TF2). This update introduced the "crate" item into the game, which when obtained, provides a player the opportunity to purchase a "key": a $2.49 microtransaction to be used to open the crate and receive a random virtual item from the crate's contents. Among the list of items each crate contained was an "Unusually special item". With a 1/100 chance, the opening of a TF2 crate would award the player with a special, randomised cosmetic item, wearable by the player-character in-game. These items are purely cosmetic and provide no practical utility in-game. However, these hats, called "unusuals" by the community, became a status symbol of wealth and skill in TF2. Valve Software proceeded to implement a similar loot box system into their next video game title, *Counter Strike: Global Offensive* (CS:GO). The success of this monetisation system propelled the still private family company to a current estimated $100 billion valuation with $17 billion annual revenue, an incredible $50 million annual revenue per employee (Alinea Analytics, 2025).

Recognising this success, the video gaming industry followed suit, integrating similar loot box models into any game possible. In 2026, loot boxes and microtransactions are a mainstay in the gaming industry. The freemium model has been entirely normalised, and the structure of these monetisation strategies are accepted as merely an element of gaming.

Spicer et al. (2022) investigated the relationship between video game loot boxes and traditional gambling. Observing the popularity and normalisation of loot box mechanics in video game monetisation, they highlighted comparisons to traditional gambling mechanisms, such as slot machines. Through a questionnaire focusing on gambling and loot box experiences from 1102 participants aged 18 and older, the study found that 20% of participants started gambling because of their loot box experiences and 20% attributed their consumption of loot boxes to their gambling addiction. Named the "gateway effect" or "reverse gateway effect", 86% of the participants of these two groups were under the age of 18 when first engaging with loot boxes. Participants that experience the gateway or reverse gateway effects also exhibited higher scores for problem gambling, problem video gaming, and general impulsivity.

The observations of this study support a categorisation of both loot boxes and gambling into the encompassing term of variable ratio reinforcement schedules (Ferster & Skinner, 1957). As defined in the 1957 foundational research on operant conditioning, variable ratio reinforcement schedules are a system in which a reward is delivered after a randomised, unpredictable number of responses. It was observed that this unpredictability in reward structure creates "highly persistent behaviours that are difficult to extinguish", highlighting the inherent addictiveness of randomised rewards. This unpredictability of rewards is present in both video

game loot boxes and various forms of gambling, both contributing to a compulsive loop of purchasing in an effort to achieve desirable outcomes.

The influential and addictive nature of loot boxes combined with the proven vulnerability of youth audiences mentioned in section 2.3 pose a dangerous threat for youth development in modern society. The World Health Organization (World Health Organization [WHO], 2024) cites that 1.2% of the global adult population suffers from gambling disorders, with 5.5% of women and 11.9% of men having experienced some form of harm from gambling activities. This data shows that even adults, with their sufficient cognitive resilience to resist variable ratio reinforcement schedules, succumb to these activities. With modern understanding of youth development and impulse control, one can infer the dangers of these same activities when they are explicitly targeted towards children. With the player bases of many video games that include loot box monetisation models consisting predominantly of people under the age of 18, there is a financially motivated exploitation of this impulse control. Many video game economies are implicitly designed to weaponise the vulnerabilities of children in their developmental phase.

In contemporary society, the video game aesthetic is intrinsically linked to notions of harmless adolescent entertainment. This perception often shields the use of predatory mechanics in video games from regulatory scrutiny, allowing for the operation of casino-like systems without the rigidity of actual casino regulatory oversight.

As the gaming industry has grown from the early 2000s, game companies have had to find alternative methods to profit from their games. The most successful and profitable method for the modern gaming industry is through randomised rewards, usually administered via micro-transactions. Playing on the human attraction to the randomised possibility of something greater

than average, microtransactional loot boxes monetise this human desire by connecting to game-pieces.

This research will analyse Counter Strike: Global Offensive as a case study. In CS:GO, loot boxes exist in the form of “cases”. These cases drop randomly after periodic amounts of time and require a “key” which costs roughly $2.50 to unlock, presenting the player with a randomised item from a selection of options available within the case. Each item has a probability of dropping, with the rarer and more desirable items being less likely to obtain. This sounds a lot like gambling, except for the fact that these are cosmetic items in the game, and hold no real-world value, at least legally.

The issue is that a market for the buying and selling of these randomly dropped cosmetics actually exists. Through third-party websites, there is an entire economy dedicated to the trading of these items for real currency. If one can acknowledge the real currency value of these digital cosmetics, loot crates in CS:GO change from being an in-game randomised micro-transactional purchase to actual gambling.

Going one step further, these items are acknowledged by the general CS:GO community for their economic value, and as such, are used as currency replacements for multiple storefronts, including offshore crypto and crypto-adjacent casinos and gambling sites. As a child, I was able to place bets and receive payouts on sports and esports matches with these digital cosmetics. I was able to play blackjack, roulette, and all the other typical casino games from the comfort of my home, without any regulation or restriction. This continues to be possible today despite various new digital protection acts due to the various loopholes surrounding the definitions of currency and gambling.

2.6 REGULATORY DRIFT AND FINANCIALISATION

Regulatory drift occurs when the established laws and regulations drift away from their original intended purposes due to technological, societal, or economic changes. Logically, all regulatory structures must adapt to change as it occurs. Even foundational documents like the United States Constitution have been amended to stay effective and true to their original purpose in modern times. However, throughout years of governments performing their duties, passing legislation and attempting to properly govern society, regulations may drift away from their core protective intentions. New inventions that change the way society interfaces with previous technologies necessitate the re-evaluation of the laws that focus on these topics. Regulatory drift occurs when the rate of these amendments cannot keep up with the inundating pace of technological change.

The Commodities Exchange Act (CEA) is a primary US law designed to keep trading markets fair and to prevent fraud and price manipulation. It requires certain financial agreements to adhere to strict regulation and to be traded openly on regulated platforms that are overseen by the government. Derivatives are a common financial agreement traded on these regulated markets. A derivative is a financial contract whose value derives from an underlying asset or occurrence. Rather than the direct acquisition of a barrel of oil, one may purchase a derivative of oil, signing a contractual financial agreement on the future price or the outcome of a future event. Event contracts are a style of derivative in which the asset of concern is a real-world event. The contract states that money is paid only if this real-world event occurs. Event contracts are the legal basis for the emergent industry of prediction markets, such as Kalshi and Polymarket.

Beylin (2025), a law professor at Seton Hall University, recently published an article titled “Event Contracts Are a Step Too Far for Derivative Regulations”. In this article, Beylin analyses the historical goals of the CEA, stating that its primary purpose of derivatives was for their utilisation as a tool for hedging, minimising the potential losses of an investment gone wrong, rather than as a speculative investment tool for real-world events. Tracing the historic occurrences that have led to regulatory drift in financial markets, Beylin argues that event contracts which have a binary payout based on specific event occurrence, that do not actually track the price of the referenced assets, fail to serve the statutory goals of the CEA. He proposes that the Commodity Futures Trading Commission (CFTC), the organising body in charge of financial commodity regulation, should remember the original purpose of the CEA.

The existence and growing prevalence of event contracts in the form of prediction markets has provided any real-world event with economic consequence. Corporations such as Kalshi and Polymarket have identified this “economic consequence” loophole and have been quick to act. By styling practically anything from sports outcomes to presidential elections as derivatives, these platforms have successfully listed their products on regulated financial exchanges, bypassing traditional gambling regulations.

The main theme of Beylin’s stance and research is that event contracts, and more notably prediction markets, do not provide the actual utility for which their financial contract category exists. The CFTC has the jurisdiction to require regulated market exchanges to delist these event contracts if they are deemed to be inappropriate. However, what can be observed is instead similar to cases such as with loot box regulation or social media disclosure: the existence of applicable legislation lacking concrete enforcement, resulting in a practically unregulated

market. In 2023, Kalshi sought approval to list “Congressional Control Contracts” which would allow for traders to purchase event contracts based on which political party would control the US House and Senate after the 2024 elections. The CFTC prohibited Kalshi from offering these contracts, however, Kalshi later sued the agency in federal court, with the judge ruling in their favour, under the pretence that elections are not “games” and therefore exceed statutory exceptions of the CFTC for “gaming” and “unlawful activity” (*KalshiEx LLC v. Commodity Futures Trading Commission*, 2024). This classification has been weaponised in their marketing campaigns, with past advertisements making the bold claim of “Sports Betting is now legal”, despite the claim of being an event contract derivative rather than a gambling vehicle.

Kyla Scanlon is a financial educator and commentator who specialises in the intersection between economics, consumer psychology, and internet culture. Her work examines how financial data is consumed by retail investors and general society. In her recent article in the New York Times, Scanlon discussed the dangers of the growing prevalence of prediction markets (Scanlon, 2026).

Firstly, prediction markets legitimise narratives before official channels can respond. In cases such as elections, news media now report on the odds of adjacent prediction market contracts. This means that as the odds for a prediction on Kalshi or Polymarket change, this mass exposure allows for the warping of public sentiment to align with the predictions, rather than public sentiment dictating the odds of a prediction event contract. In addition, unlike traditional polling methods, prediction market platforms are open for anyone with the sufficient capital to modify the odds of a prediction at will: the odds of an event contract simply represent the amount of money placed on an event occurring or failing to occur. This empowers interested

parties to utilise prediction markets as a tool to influence public perception and gain public consensus for specific narratives.

Scanlon also highlights the worrisome nature of prediction markets and their intersection with the economic trend of "financial nihilism": the perceived lack of stable economic paths forward for younger generations, pushing younger generations towards speculative bets and gambling to try and "win big". The existence of more speculative financial vehicles allows for more instances in which the average consumer can gamble their money away. Lastly, there are ethical concerns with the way in which prediction markets handle betting on sensitive topics, such as wars, death, disasters, and geopolitical crises. Placing an economic value on every real-world event sets a dangerous precedent, desensitising the public and exploiting human psychological vulnerabilities for financial gain.

Prediction markets have adopted the terms of "market intelligence" and "truth machines" to reframe the view society has towards these platforms, allowing corporations to disguise gambling as a mainstream activity and public service. This blurring of the lines between legitimate financial vehicles and gambling is the primary focus of Geslevich Packin et al. (2025) in their article titled: *Hooked and Hustled: The Predatory Allure of Gamblified Finance.* The authors showcase specific manipulative design choices on popular cryptocurrency exchanges such as Robinhood and Webull, all of which exploit similar psychological vulnerabilities commonly targeted by gambling platforms: digital nudging through the constant use of digital push notifications to entice users to remain active, free rewards to incentivise unplanned market participation, feedback loops exploiting behavioural psychology to trigger dopamine rushes and

incentivise spontaneity, and social competition in the form of investment leaderboards to cause an escalation in risk-taking in an effort to stay at the top.

The paper also discusses that the predatory nature of these market exchanges heightens user activity while increasing financial consumer risk. It was observed that this dynamic disproportionately affects individuals who lack sufficient financial literacy to make educated decisions, younger participants in the market, and women in general. “Meme stocks” are used as an example of this newly generated impulsivity of financial exchange activity, in which individual figures such as Roaring Kitty, or r/WallStreetBets, a user-forum on the social media platform Reddit were able to convince consumers en masse into making speculative trading decisions primarily based on hype. This surplus in new user activity and inexperienced participants in financial exchanges highlights the importance of regulation from existing securities laws and consumer protection standards, specifically regarding predatory application design and harmful financial inclusion.

The techniques leading to this “gamblification of finance” have immense overlap with the monetisation strategies and psychological exploits utilised by video games. A connection can be made between youth audiences and financially illiterate participants: both parties are not equipped with the proper knowledge or cognitive preparation to adequately deal with the scenarios put before them. Combining social media influencer advertising, video game loot boxes, predatory monetisation tactics, the gamblification of finance, and the emergence of prediction markets, creates a systemic environment of exploitation. From adolescence to young adulthood, the economically motivated cocktail of forces abuses “technically fine” loopholes to extract wealth. Regulatory framework systematically fails to protect consumers from these

predatory tactics and behavioural conditioning schemes due to legal technicalities and lack of proper “good faith interpretation” enforcement of the law.

CHAPTER 3

METHODOLOGY

3.1 METHODOLOGICAL APPROACH

This research employs a qualitative research methodology to examine the systematic exploitation of youth audiences across digital platforms. The study analyses elements such as psychological manipulation, the exploitation of cognitive vulnerabilities, user interface design, and the interpretation of regulatory language. These components require critical contextual and intention analysis, which cannot be adequately captured through quantitative or statistical methods. A multiple case study design allows for the evaluation of distinct, separated environments of influencer marketing, digital game economies, and digital financial platforms to prove that the "technically fine" loophole is a systemic, multi-industry issue that contributes to the detriment of youth development.

3.2 RESEARCH DESIGN

Cases were deliberately chosen through purposive sampling. The goal was to focus on three disparate industries that represented three stages in the digital exploitation pipeline established in Chapter 2: social media advertising, digital game economies, and "gamblified" finance.

Research regarding the social media advertising case study will focus primarily on text post, image, and video social media influencer content on Instagram, YouTube, and TikTok to

investigate the entry point of the exploitation pipeline. Analysis of content on these platforms will provide insight into how sponsored content is integrated and how disclosure tags are used in efforts to bypass the Persuasion Knowledge Model.

Video game economy analysis will be primarily focused on Valve Software's Counter Strike: Global Offensive (CS:GO), also known now as Counter Strike 2 (CS2). Other popular game economies may be referenced for comparisons in structure; however, the core goal of this research is to explain the interaction of classical video game economy structure and behavioural conditioning, mainly through variable ratio reinforcement schedules and loot box design. This section will also investigate the similarities between these activities and traditional gambling.

Kalshi and Polymarket will be the primary case studies for the section on prediction markets and financialisation. Examining the culmination of the exploitation pipeline, this research will analyse the ways prediction markets advertise themselves to young adults, and the utilisation of financial regulatory classifications to offer "gamified" betting services.

3.3 DATA COLLECTION PARAMETERS

Data collection will be primarily direct observation of images and screenshots from the chosen platforms. The social media influencer research will utilise screenshots of influencer posts, transcripts of key short-form videos, and visuals of disclosure tag placement. The gaming case study will consist of screenshots or video recordings of loot box interfaces, demonstrations of design choices that create predatory feedback loops, and the display of probability disclosure for these loot boxes. Data collection for the prediction markets will include marketing materials,

screenshots of the interface of betting mechanisms, and legal excerpts from Kalshi and Polymarket's Terms of Service (TOS) to explain legal classification.

The digital data will be primarily from 2024-2026 to ensure these items properly reflect the most up-to-date versions of a constantly evolving ecosystem, both infrastructurally and legislatively. Older screenshots may be displayed for the social media influencing and gaming studies to serve as historical comparisons of significant change through the years.

3.4 ANALYTICAL LENS

The foundational theories of the Persuasion Knowledge Model and the Elaboration Likelihood Model will be utilised to analyse the visual and interactive elements of the collected material. The goal of this research is to highlight intentional design choices that prioritise passive processing (Peripheral Route) instead of active thought (Central Route). The effect of parasocial elements on the efficacy of disclosure tags will also be analysed.

Legal and structural data will be analysed via the concept of regulatory drift. Collected platform interfaces, marketing materials, and legal documentation will be cross-referenced with the original consumer protection goals of the FTC and CFTC. The objective is to showcase design choices that result in "technically fine" legal compliance while actively bypassing the true intention of the law.

CHAPTER 4

ANALYSIS & CASE STUDIES

4.1 CASE STUDY: SOCIAL MEDIA INFLUENCING

4.1.a Drunk Elephant GRWM TikTok Trend

The popular trends of most youth generations reflect many of the cultural relevancies of their time. In the case of youth audiences in the current year of 2026, one emergent category of focus is on high-end skincare. Titled “Sephora Kids”, a name in and of itself inspired by one of the largest global skincare and makeup distribution chains, this youth trend consists of teens and pre-teens consuming high-end skincare products. A majority of the content in this category is simply influencers demonstrating their morning skincare routines, or in these distribution stores, such as Sephora or Ulta Beauty, performing demonstrations of new products. Within the Sephora Kids trend, the “Get Ready With Me” trend (GRWM) contains solely these morning routines, which often heavily rely on a certain product or brand product line, often sponsored, and more frequently, not sufficiently disclosed.

One of the most notable of these GRWM trends derives from a social media campaign launched by Drunk Elephant, a skincare products brand, focusing on a “skincare smoothie”, in which multiple products from the Drunk Elephant product line are mixed together to make the creator’s easy-application morning skincare routine. Influencers sponsored by Drunk Elephant, from free product to monetary compensation for endorsement, all use the hashtag #DrunkElephantPartner alongside “tagging” the official @DrunkElephant TikTok page.

However, analysis of posts that utilise this #DrunkElephantPartner hashtag shows that the usage of the “Paid Partnership” disclosure tag is inconsistent. Additionally, none of the analysed videos, which span in video length from 15-seconds to 2-minutes long, contain more than a passing comment about how these skincare products were received. There is no explicit mention of sponsorship or monetary association to the brand.

The camera angles utilised in the Drunk Elephant GRWM trend are always close-up and intimate, either on a nearby table or manually held in selfie style. The mixing of the skincare smoothie is always front and centre to the video content and is always presented in a conversational, casual style, often in the format of “storytime” content, in which the influencer tells a story about their life or past experiences. The layout of the user interface when interacting with these social posts also allows for the legally adequate forms of disclosure to be obscure and easy to miss.

The TikTok video published by @juandchan on 5/13/2024 (see Figure 1) showcases a typical influencer product endorsement in the GRWM skincare smoothie trend. The paid partnership disclosure tag and #drunkelephantpartner are both contained in the bottom left portion of the screen. In the video, the creator speaks about her experiences being pregnant. The skincare products, while displayed and advertised by name, are not the primary focus of the video. While the advertising is disclosed, this format suggests a passive consumption of the content, with any cognitive activity being directed towards the “storytime” material.



Figure 1

Drunk Elephant GRWM TikTok Video by @juandchan. Note. The paid partnership disclosure tag and #drunkelephantpartner are both contained in the bottom left portion of the screen.

Published on 2/26/2026, the video from @cozyanastasiia.ugc serves as an example of a more traditional form of product endorsement, as shown in Figure 2. The structure of this video closely mimics a traditional advert, with a 26-second video length, discussing all the benefits of the product, with closeups of the product label and product application. The paid partnership disclosure tag is again featured, but the #drunkelephantpartner is hidden underneath the description text, which requires additional user interaction by pressing the “more” button to expand the text.

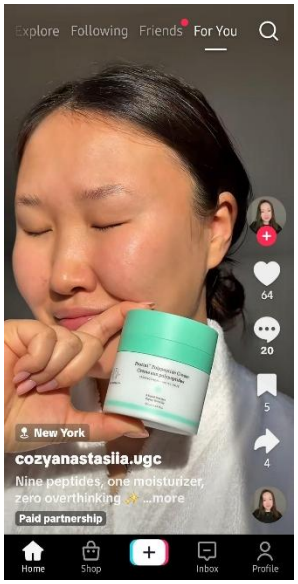


Figure 2:
Traditional Product Endorsement TikTok Video by @cozyanastasiia.ugc. Note. The #drunkelephantpartner hashtag is hidden underneath the description text.

@kimberlybizu's video, published on 10/29/2025, is a great example of the ways advertising disclosure can be "technically fine" but virtually hidden (see Figure 3). Notably, this video does not contain a paid partnership tag like the other videos. The #drunkelephantpartner hashtag resides in the description of the video but is not visible without additional user interaction. As a result, when passively engaging with this video, a user is provided with no suggestion from the creator about the monetary association the influencer has with the brand. Additionally, this video is part of a series from the creator, in which she speaks about "different life lessons she wishes she had been told in her early 20s." The lessons discussed range a myriad of topics, not all of which focus on skincare. The Drunk Elephant product endorsement appears halfway through the 1-minute and 25-second video, appearing on screen for only 8 seconds.

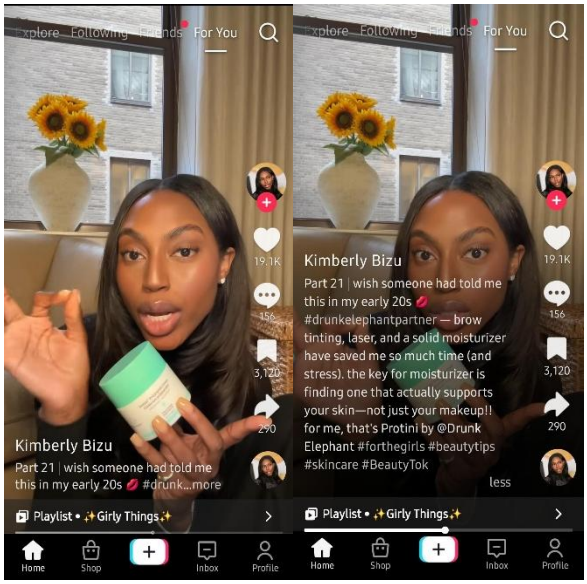


Figure 3

Undisclosed Sponsorship TikTok Video by @kimberlybizu. Note. The left panel demonstrates the initial view lacking a paid partnership tag, where the #drunkelephantpartner hashtag is hidden. The right panel shows the expanded text requiring user interaction. Both showcase a frame from the brief eight-second appearance of the sponsored product.

The combination of the intimacy of the social trend format with the unpolished conversational tone these influencers adopt mimics a video call with a friend. Analysing through the lens of the ELM, the decisions made by both TikTok's platform design and the influencer's advertising disclosure supports consumption via the Peripheral Route. The inducement of passive and emotional processing contributes to the vulnerability of the consumer regarding cognitive advertising defences. From a PKM lens, the parasocial connection the viewer has to the influencer also keeps their cognitive defences dormant. Simple advertising disclosure tags will often fail to trigger Persuasion Knowledge due to the mind's classification of the interaction as social, rather than commercial.

From a legal perspective, the FTC's fundamental rule states that "material connections between an endorser and a brand must be clear and conspicuous." Notably, the FTC has

explicitly advised that this disclosure should be provided in both audio and video format. @juandchan and @cozyanastasiia.ugc both technically fulfil the baseline legal requirements by utilising the paid partnership disclosure tags. @kimberlybizu's video is the ultimate proof of regulatory drift. The embedding of an 8-second, seemingly undisclosed, advertisement into a 1.5-minute video discussing life lessons weaponises the format of short-form video content to make this sponsorship practically invisible to the average, passive consumer.

From the "technically fine" compliance to blatant disregard of FTC regulation, these examples all demonstrate that despite the legal regulatory effort, the very essence of what these regulations attempt to control is still allowed to exist freely. Even in the cases of creators complying with what the law requires of them, the design of the TikTok platform user interface (UI) helps to bury additional disclosure. These regulations built for traditional television and adapted to social media technologies fail to properly protect youth audiences from social media UIs and the speed of algorithmic change present in modern applications.

4.1.b Logan Paul, Prime Hydration, and Parasocial Protection

Logan Paul is one of the largest social media influencers of all time. With billions of views on his video content, over 25 million followers on each of his social platforms, and a now estimated net worth of over $100 million, Paul wields a massively large sphere of influence. His actions contribute significantly to the zeitgeist of his viewer base, which consists of a predominantly male Gen Z demographic, spanning from ages 14 to 29. Prime Hydration is a sports drink collaboration between Paul and fellow Influencer KSI, founded in 2022. The duo leveraged their social media influence and following to create a sports beverage company with an estimated valuation of over $3 billion by late 2024. The drink became a cultural phenomenon

in early 2023 and was further bolstered due to intentional scarcity distribution tactics. Additionally, the product faced regulatory scrutiny due to the caffeine content in various Prime products alongside the focus on youth marketing.

The Prime Hydration logo and merchandise have been heavily featured in Paul's content since the product launch. While Paul has been open about his financial ties to the Prime Hydration brand, the parasocial bond between him and his fans contributes to a dangerous dynamic. Because Paul is so transparent about his ownership of Prime Hydration, the product is wielded as a prop, rather than as a proper advertisement. Advertisement disclosure is arguably unnecessary due to this transparency.

Figure 4 shows a screenshot from the first second of one of Paul's most recent videos, uploaded on 3/11/2026. In much of Paul's content in collaboration with World Wrestling Entertainment (WWE), he is adorned in Prime Hydration branded outfits. While Paul does not explicitly mention Prime in the contents of the video, the wearing of this jersey acts as a constant, passive endorsement of the product.

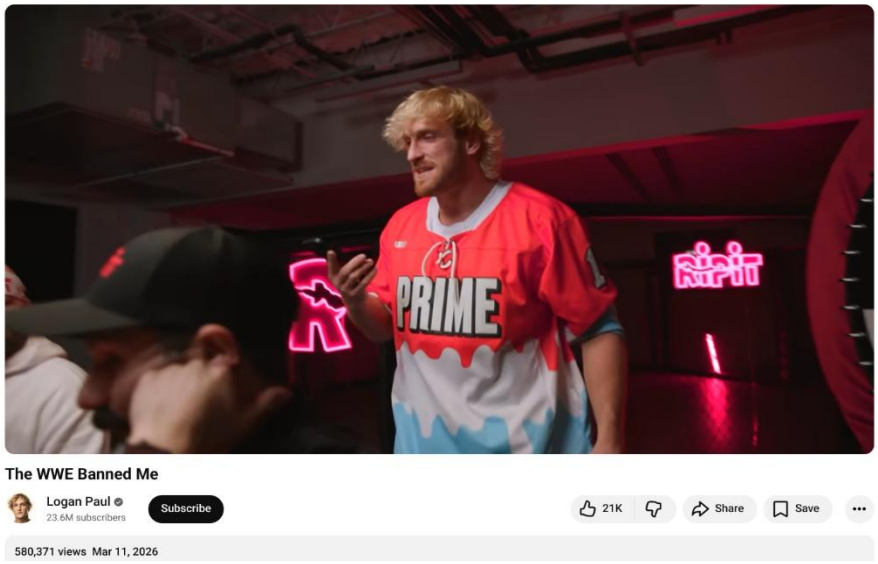


Figure 4

Logan Paul Wearing a Prime Hydration Jersey. Note. The jersey acts as a constant, passive endorsement of the product.

IMPAULSIVE is Logan Paul's podcast brand. This screenshot (Figure 5), from a video interview featuring Donald Trump uploaded on 6/13/2024, contains multiple elements of visual clutter from Prime Hydration products on the podcast set. Prime Hydration bottles are on the table in front of the creators and the President of the USA, at the time campaigning for re-election, next to Trump's party merchandise. There is no reference to the inclusion of Prime Hydration products as an advertisement due to Paul's transparent affiliation with the brand.

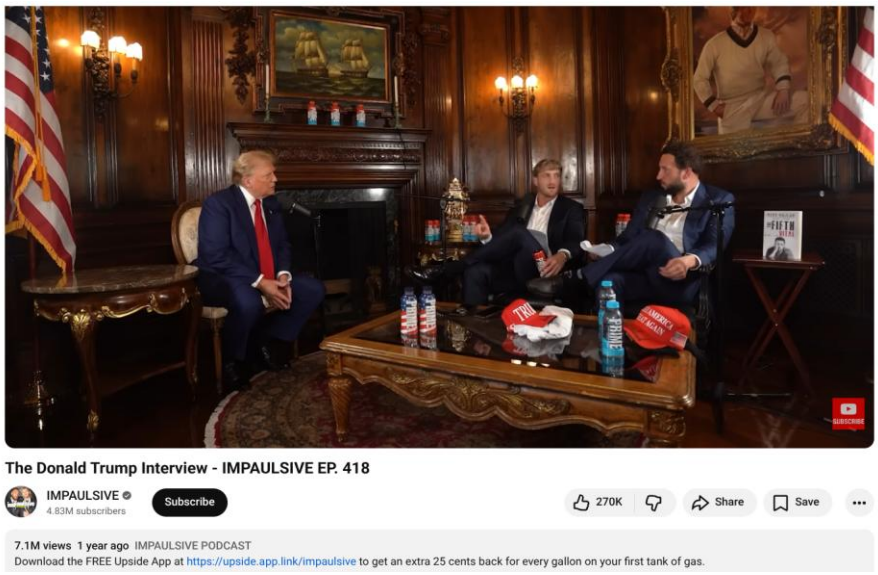


Figure 5

Prime Hydration Product Placement on IMPAULSIVE Podcast.

Both videos showcase ways in which the Prime Hydration brand is advertised through his social media platforms. Through the lens of the PKM, viewers, especially youth audiences, have established deep parasocial connections with Paul through years of constant consumption of his content. Because of this parasocial dynamic, Paul's audience views him foremost as an entertainer rather than a corporate entity.

Applying the ELM framework, the passive, constant inclusion of Prime Hydration product and branding pushes viewer processing of the advertisement into the Peripheral Route. Additionally, the inclusion of these branded motifs accompanied by exciting events and eye-catching guests draws further active attention away from these adverts. The viewer absorbs the Prime Hydration branding emotionally rather than analysing it logically, neutralising their Persuasion Knowledge defences.

From a legislative perspective, the FTC endorsement guidelines were built for a traditional model in which a separate corporation pays a celebrity to endorse a product. However, ownership of a brand or company is considered a "material connection" that must be disclosed. Despite this fact, we see that Paul's passive advertising and product endorsements have been accepted as "technically compliant" simply from a lack of enforcement or action from legislative parties. The accepted narrative again falls on Paul's transparency of ownership. It can be argued in any case brought against Paul in this regard that he has never hidden his material connection to Prime Hydration. The regulatory drift seen in this blurring of lines between lifestyle vlog and commercial allows for highly effective and persuasive marketing to directly target youth audiences without the requirement of effective cognitive triggers.

4.2 CASE STUDY: COUNTER STRIKE 2 AND DIGITAL GAME ECONOMIES

Valve Software is a game development studio founded in 1996, best known for creating the *Counter Strike* franchise and Steam, the largest digital video game distribution platform in the world. While *Counter Strike 2* serves as their flagship competitive e-sports title, Valve's functional power lies in its position as the platform architect of Steam. By owning both the video game in which the digital assets are generated as well as the digital platform on which these assets are stored, Valve exerts total control over the economic environment. This economic model was developed with assistance from Greek economist Yanis Varoufakis, who later became Greece's Minister of Finance, tasked with rescuing the country from its economic recession in 2015. This dual ownership allows Valve to dictate their terms of service to the millions that utilise the platform, laying the foundation of the closed-ecosystem legal defence. While CS2 is the current flagship title, it was previously known as *Counter Strike: Global Offensive* (CS:GO).

In CS:GO, the 2013 "Arms Deal" update introduced weapon "skins": cosmetic finishes for weapons players used in-game. Skins were obtained in two ways, either randomly rewarded to players during gameplay, or by unboxing loot boxes known as "cases". As referenced in Section 2.5, these cases were modelled after Valve's previous game *Team Fortress 2's* loot box system. Players would receive cases randomly as rewards for playing. These cases could be opened by buying a "key" for $2.49, giving the player a random opportunity to receive a skin from the case's contents. Being purely cosmetic, these items provided no competitive advantage. Skins were solely a form of player expression in-game. Players who dedicated so much time to playing and competing in CS:GO wanted to have ways to differentiate their experience from

others. The rarest of these skins also became status symbols, associated with both skill and wealth in the CS:GO gaming community.

The experience of opening a CS:GO case draws many similarities to that of a slot machine at the casino. As illustrated in Figure 4.6, when a player first interacts with a CS:GO case, they are shown all the case skins, from most common to most rare consecutively. The most coveted skins are often red, known as “covert rarity”, or gold, known as a “rare special item.” Having only been disclosed once CS:GO was published in China due to regulatory pressure from the Chinese government, covert rarity skins have 0.64% odds to be obtained from a single case, while the most coveted “rare special item” has a 0.26% chance.

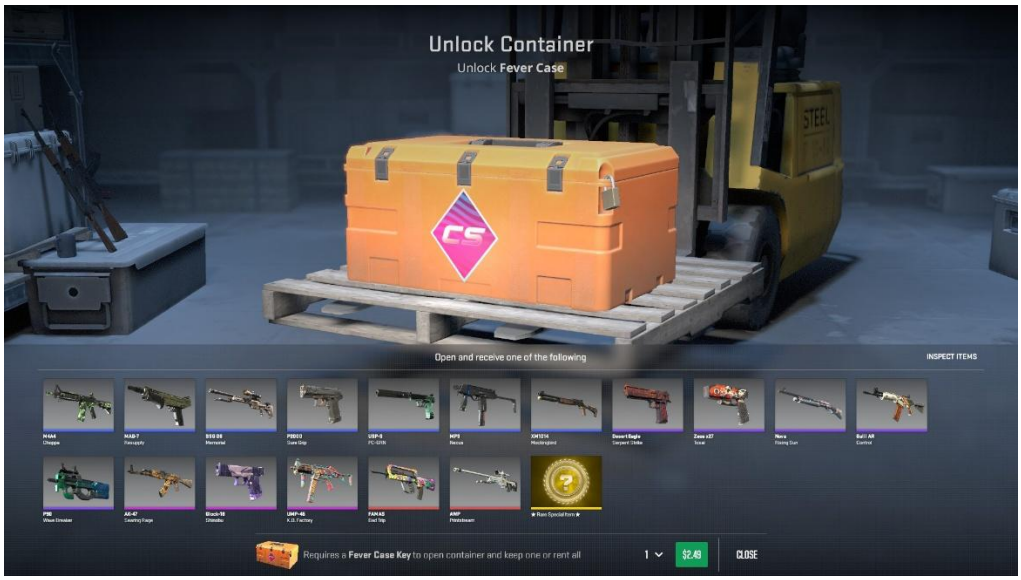


Figure 6
Counter-Strike: Global Offensive Case Unboxing Interface

Advertising the shiny jackpot in front of the user, with such statistically improbable odds, is designed to prey on the same vulnerabilities a casino or lottery system targets. Furthermore, when the player decides to purchase a key and test their luck opening the case, the visual and

audio design of the unboxing imitates a slot machine reel (see Figure 7). Different skins will glide across the screen from left to right, gradually slowing down until it lands on the item the player ultimately receives. Each item that passes on this case slot reel makes a slight ticking sound, with a larger audio flourish when the item obtained is received, with rarer items such as items of the covert rarity and “rare special items” making much louder and more triumphant sounds. While the item obtained from the case is determined automatically from the moment the button is pressed, the skins that pass in this opening animation are randomly chosen. Often, even if the user ends up receiving a low-rarity skin, multiple higher rarity skins will have been visible in passing on the slot reel, giving the player an artificial feeling of a “near-miss”.

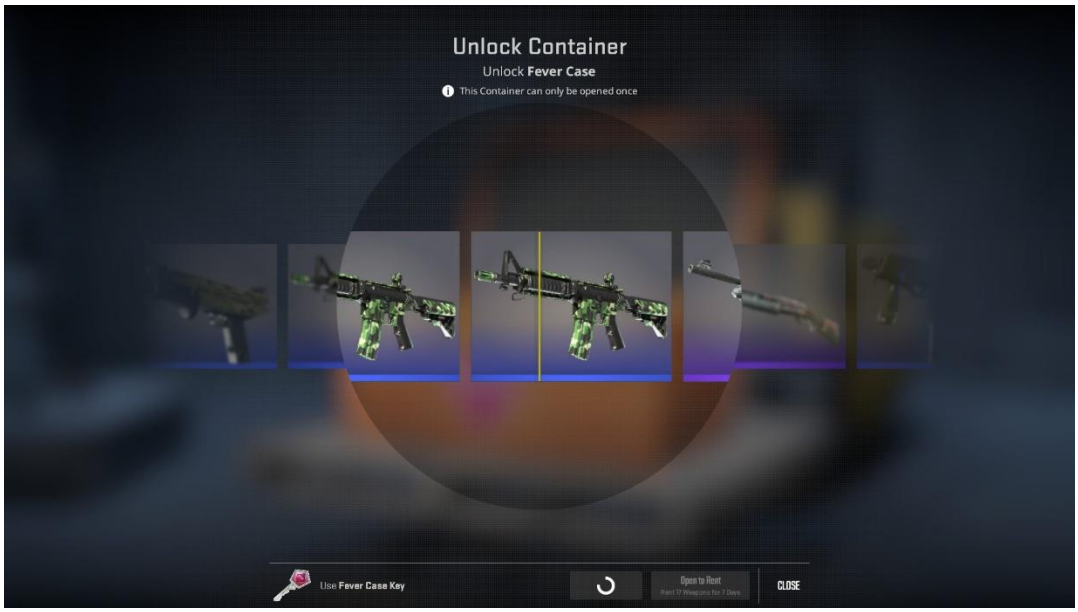


Figure 7
Counter-Strike: Global Offensive Visual Unboxing Reel. Note. The interface utilizes visual "near misses" to anchor the user to the Peripheral Route of cognition.

Analysed through the framework of the ELM, the high-arousal auditory flourishes and these visual “near miss” animations are designed to intentionally anchor the user to the

Peripheral Route of cognition. The flood of loud auditory and colourful, exciting visual cues suppresses the user's Central Route processing that would otherwise allow the consumer to critically understand the mathematical improbability of a 0.26% chance of success. By forcing an emotional interaction with the activity, the cognitive defences required to assess the true financial risk associated with CS:GO case opening are bypassed.

The mechanisms of CS:GO case openings, from the graphical interface design to auditory experience, utilise dynamics explained by variable ratio reinforcement scheduling, creating a highly addictive, highly profitable, game economy monetization system through the reward of rare and desirable skins after an undetermined number of cases.

While the system of CS:GO cases evokes many of the same themes of a casino slot machine, these video game loot boxes are not considered a form of gambling. Valve's Terms of Service explicitly states that these skins have no real-world monetary value. Therefore, regardless of the skin obtained, desirable or not, the transaction is viewed legally as the player spending money for an in-game cosmetic. Additionally, according to the Steam Subscriber Agreement, users technically do not actually have ownership of their skins in their digital inventories on Steam. Instead, the user has license rights for the skins in their Steam inventory. This specific legal distinction is the cornerstone of their "technically fine" defence. By legally defining the skin as a localised digital service rather than a tradeable commodity or financial asset, Valve successfully circumvents the regulatory authority of localised governmental bodies. While not being legally owned by the user, this license of use acts as ownership for all normal functionality within the Steam digital ecosystem. The user has the ability to buy and sell skins on Steam's "Community Market" for in-platform "Steam Credits", represented in a user's local

currency, only redeemable for purchases on the Steam platform. Observing the prices of CS:GO skins on the Steam Community market, prices roughly reflect their in-game rarities, with a value multiplier based on desirability or supply scarcity. Due to Steam Credits existing in a closed ecosystem, skins have a community-acknowledged monetary value while not legally having monetary association. Without a way to cash out these Steam Credits to a legal, fiat currency, regulators have been unable to pursue claims of gambling in attempts to regulate the CS:GO skins economy. This demonstrates regulatory drift in action: laws designed to regulate casino chips and financial commodities fail to recognise the digital license which practically functions in an identical manner.

Figure 8 displays a screenshot of the Steam Community Market, the service in which users can buy and sell their CS:GO skins, as well as other digital assets on Steam, to other users in exchange for Steam Credit.

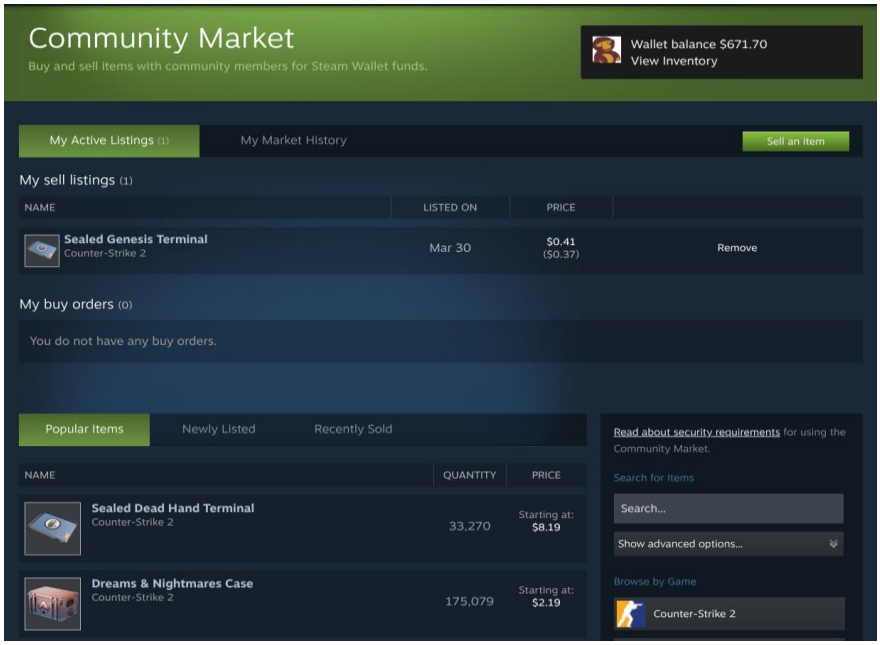


Figure 8
Steam Community Market Interface.

With the legal understanding the CS:GO skins do not have real-world monetary associations, the reality of the third-party market creates an interesting and concerning dynamic. Since Valve allows players to trade skins to other users on the Steam platform, a massive third-party industry of unauthorised skin-trading has emerged. Ranging from simple interactions such as bank transfers in exchange for a specific CS:GO skin to complex automated trading marketplaces linked to bank accounts and Cryptocurrency wallets, the truth is that there is a direct and relatively accessible way to convert CS:GO skins into real-world fiat currency. While according to the Steam Subscriber Agreement, Steam does not recognise transfers of digital item licenses made outside of the Steam ecosystem, this rule is bypassed by online skin trading sites by dividing the payment process and the CS:GO skin trade into two separate operations. Within the Steam ecosystem, user A trades the skin to user B for nothing in return. On the third party website, user B sends payment to user A in the form of direct bank transfer or cryptocurrency, or in some cases, credit on third party marketplaces to user A. Historically, Steam has cracked down on automated accounts used for some of these third-party marketplaces in the past, banning them from Steam, removing permissions to transfer items from the accounts, essentially locking all the items permanently. However, these examples of enforcement have been reserved for drastic scenarios in which Valve and Steam needed to save face. From a perspective of financial motivations, the more liquid a CS:GO skin is, the more desirable it becomes. Valve and Steam cannot acknowledge this association, but this dynamic exists, nonetheless.

Figure 4.9 shows csfloat.com, one of the most popular third-party skin-trading websites. Csfloat.com acts as a middleman service, ensuring payment from purchases and the delivery of sold items to buyers for a small commission. While technically against the Steam Subscriber

Agreement, the practice of buying and selling CS:GO skins for money is still a functionally transparent practice. The market of CS:GO skin transactions closely mirrors that of the commodities market. However, services like these prove the real, liquid nature of CS:GO skins, providing an easy way for their conversion into real-world monetary currency.

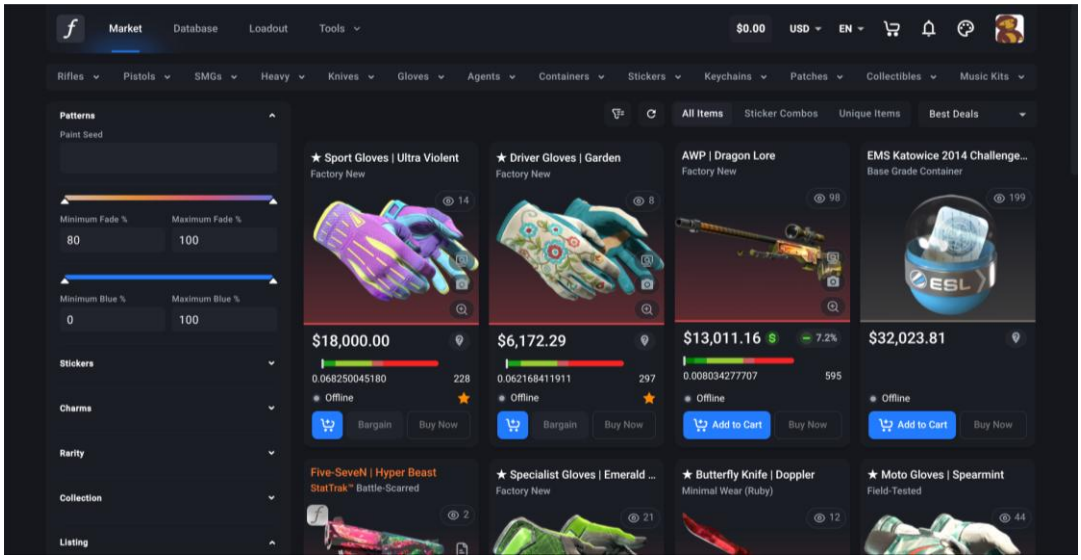


Figure 9
Third-Party Skin-Trading Marketplace (csfloat.com).

With this monetary association, a final element of the CS:GO game economy must be introduced: offshore cryptocurrency and cryptocurrency-adjacent casinos. With the global access internet technologies provide, these casino services are legally established in “gambling friendly” countries such as Curacao, Malta, Panama, and Isle of Man. The reliance on globally transferable digital assets creates a phenomenon of jurisdictional drift that complements domestic regulatory drift. Because these offshore casinos operate in gambling-friendly nations while transacting in digital assets that the parent company explicitly claims have no real-world monetary value, they exist in a profound legal grey area. This jurisdictional drift allows unregulated entities to offer sports betting and roulette to American and European youth without triggering domestic

financial enforcement. Operating on a deposit system reliant on globally transferrable currencies such as Bitcoin, a segment of these casino sites accepts deposits and offer prizes in the form of *CS:GO* skins. A skin that regularly sells for $50 on third-party websites such as csfloat.com deposited into a CS:GO casino site would give the user $50 of casino credit, with games ranging from simulations of CS:GO's case unboxing system, classical casino games like roulette and blackjack, or sports betting, either of real-world sports or e-sports. Any skins or money won by a user can be withdrawn, traded by an automated bot directly into the user's Steam inventory. While these websites often require user-identification services if required by the country the user resides in, these services are easily bypassed via Virtual Private Network (VPN), in which a user can digitally change their location to a country that allows unrestricted access.

The screenshot in Figure 10 is from CSGOroll.com, a digital casino. The interface in the screenshot is of classical casino roulette, with users betting a golden token.

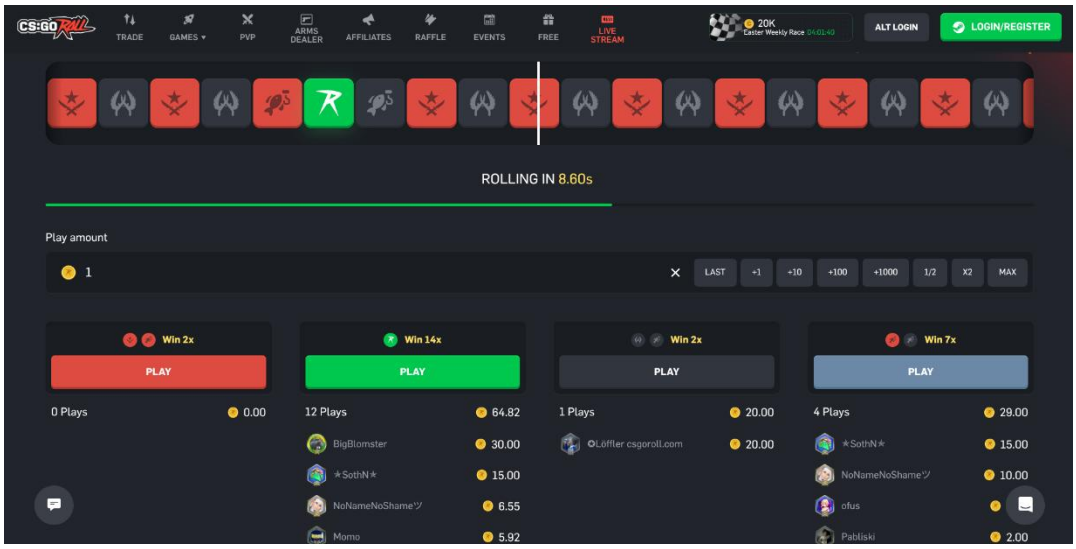


Figure 10
CSGOroll.com digital betting interface.

Users are able to log into their CSGOroll.com account utilising their Steam platform credentials and list *CS:GO* items for sale on the CSGOroll.com's coin marketplace. Once purchased by someone else on the site, the user's account will be credited with the coin listing price. These coins can then be used on the site's gambling services, such as the previously shown roulette, or live e-sports game outcomes (Figure 11).

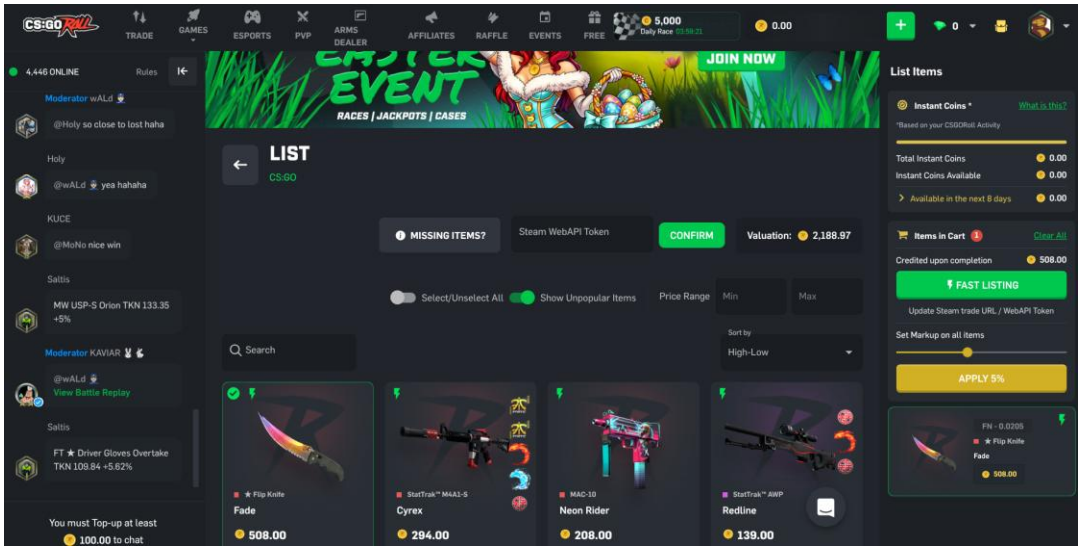


Figure 11
CSGOroll.com E-Sports Betting Coin Deposit Interface.

Note the similarity to a traditional sportsbook interface. The two are utilising the same system for placing bets, with the only difference being the material that is being bet on, and the way in which users obtain currency to place bets. While CSGOroll.com has CS:GO in the name of the site, the gambling services it offers outside of e-sports betting are relatively unrelated to CS:GO as a whole. Other online casinos such as Skin.club instead offer an entirely curated CS:GO-themed gambling experience, as shown in Figures 12 and 13.

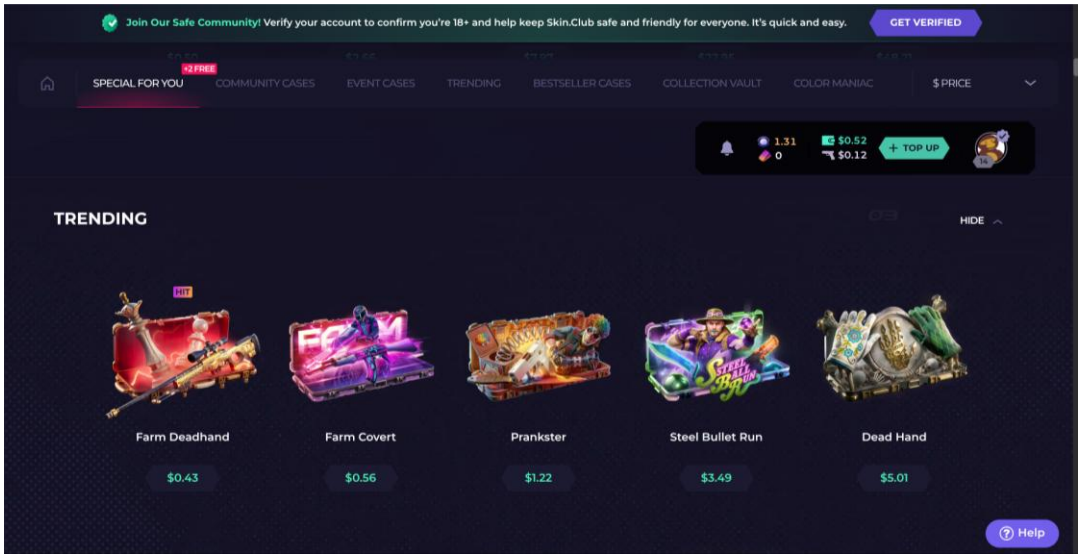


Figure 12

Skin.club Trending Cases Interface. Note. A banner requesting age verification is visible, but not functionally required to operate the site.

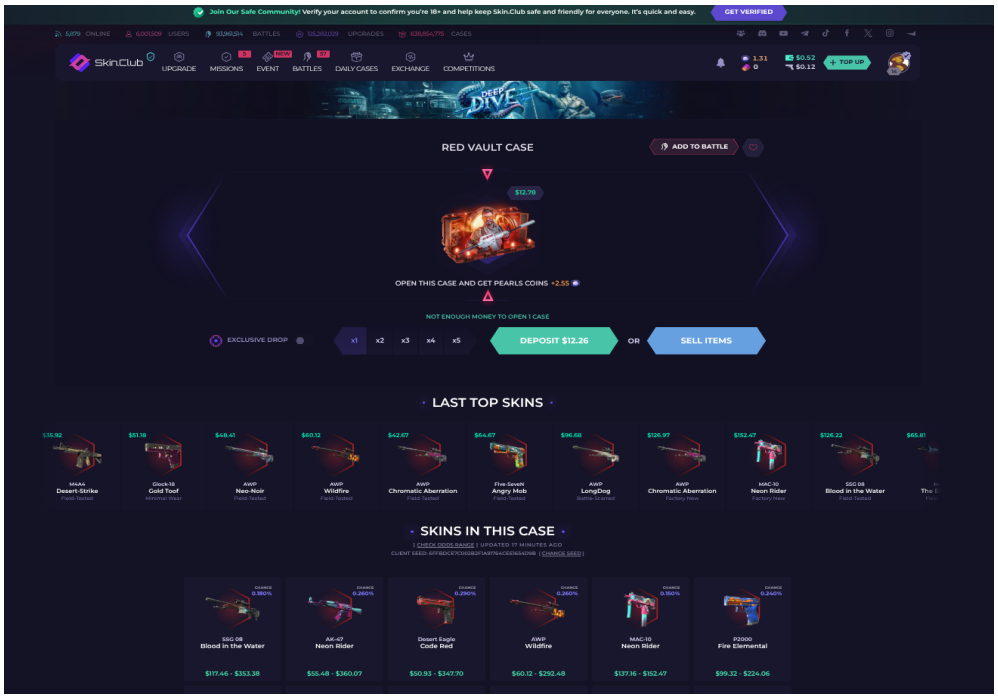


Figure 13

Skin.club Custom Case Opening Interface. Note. The site mimics the official CS:GO slot machine reel system while displaying exact probability odds.

On sites such as Skin.club, users can gain credit by directly depositing CS:GO skins or through normal payment via bank transfer or cryptocurrency. On Skin.club, the only gambling services offered mimic CS:GO's case unboxing system. The cases are customisable, often being themed around different media franchises. Notably, visible at the top of the Skin.club website is a banner requesting verification of the user's age. This banner implies that verification is required to engage with the website's services, however, all the fundamental services of depositing, gambling, and withdrawing, are possible without doing so.

Similar to in the CS:GO in-game client each case shows the skins a user can obtain. Unlike in the CS:GO in-game client, the actual odds of obtaining each item are displayed directly on the skin previews. Additionally, Skin.club utilises the same reel slot machine system as the in-game client.

Establishing the existence of these offshore digital casinos in combination with the ability to deposit CS:GO skins for credit to engage in these gambling services, there is a demonstrable pipeline from a user playing CS:GO, to obtaining CS:GO skins, to unregulated digital online gambling. All of this is accessible by any youth participant, with no enforced age restriction placed on playing the now free-to-play (F2P) CS:GO, to the interaction with the in-game microtransactional cases, to their eventual use as currency for offshore casinos. When a majority of audiences playing and participating with online video games are underage, having access to this unregulated pipeline in an industry of gambling, notoriously associated with crippling addiction, is deeply alarming.

Children enter this pipeline through a video game. Connecting back to the PKM, teenagers choosing to play CS:GO have their cognitive defences down since CS:GO itself is

fundamentally an entertainment environment. However, through the exposure of variable ratio reinforcement schedules present in the microtransactional loot box model in the CS:GO economy, as well as the CS:GO community's general acknowledgement of CS:GO skins as digital currency, there is an undeniably nefarious, albeit unintentional conditioning taking place.

4.3 PREDICTION MARKETS: KALSHI AND POLYMARKET

Prediction markets are exchange-traded platforms on which users buy and sell contracts based on real-world event outcomes. Although comparable to a pari-mutuel betting system like horse racing, prediction markets operate as Central Limit Order Books (CLOBs). Users buy shares priced between $0.01 and $0.99, which resolve as $1.00 if true, and $0.00 if false. Activity in the buying and selling of shares profits the prediction market through a small transaction fee. The types of events actively traded on prediction market platforms move beyond traditional finance or commodities markets, ranging from pop-culture events, weather patterns, urban city traffic density, celebrity awards ceremonies, sports matches, and even presidential elections. Two of the largest prediction market platforms, Kalshi and Polymarket, will be the subject of this study.

Kalshi is a fiat-based, US-regulated prediction market platform, while Polymarket is cryptocurrency-based and decentralised. In the last two years, both Kalshi and Polymarket have seen immense user adoption globally, with a particular concentration in the United States of America. This increase in consumer usage, combined with the topics of focus for event contracts that drive a majority of this usage, contributes to a cultural and societal shift that will be observed in this case study.

Kalshi operates legally in the USA due to being regulated by the Commodity Futures Trading Commission (CFTC), designated as a Designated Contract Market (DCM). Functionally, users of Kalshi are placing bets on the outcomes of events, but legally, they are trading event-based derivatives. This highlights the fundamental failure of traditional gambling law to regulate financialised betting.

Polymarket instead has a tumultuous history with regulatory classification. In 2022, the CFTC issued a cease-and-desist order to Polymarket for operating an unlicensed trading facility for commodity options trading. Polymarket was forced to pay $1.4 million in civil penalties and shut down its U.S. operations. Between 2022-2025, Polymarket operated as an offshore, decentralised prediction market, explicitly excluding the U.S. in its Terms of Service to avoid CFTC regulation. In a similar fashion to the offshore crypto casinos mentioned in Section 4.2, U.S. users would access the site through VPN. However, as of December 2025, following internal restructuring and the acquisition of QCEX, a CFTC-licensed exchange, the CFTC issued an Amended Order of Designation, granting Polymarket the same DCM designation as Kalshi, allowing for comprehensive legal operation in the U.S. Notably, this ruling from the CFTC coincides with Donald Trump Jr., the son of the current U.S. President, joining Polymarket as an investor and advisor, followed by a broader push from the U.S. government for "regulatory clarity" towards prediction markets.

To understand how platforms like Kalshi and Polymarket justify their status as DCMs, it is necessary to examine the historical purpose of options in traditional finance. In traditional financial markets, options are used as a financial tool for legitimate businesses to hedge risk from disastrous outcomes. A farmer may elect to sell future purchasing rights to their produce at a fixed price, preventing financial ruin in the event of falling crop prices. Sacrificing a percentage of product profit margins is done in an effort to ensure they retain sufficient capital for current operations. The guaranteed buy price of these futures is then tradeable on the market. If an investor believes the price of the product will rise in the future, a contract that guarantees a fixed, lower purchase price is a profitable investment.

The classification as a DCM is what allows Kalshi and Polymarket to bypass traditional gambling and sports betting legislation. Event contracts are considered financial market operations due to the aforementioned traditional use of options in financial markets. This "technically fine" loophole showcases the dissonance between legal regulation and the practical intention of prediction markets. Arguing that these event contracts provide utilitarian value to the market in the form of data and prediction metrics, prediction markets are able to frame gambling as a legitimate financial tool. The CFTC is applying regulation meant for agricultural hedging to contracts about who the bridesmaids will be at Taylor Swift's wedding.

When observing a traditional financial platform such as Vanguard, the interface is extremely sterile, with an emphasis on numerical data and graphical display of holding performance (see Figure 14). The mobile application for Vanguard closely mirrors the website design, delivering the same sterile experience.

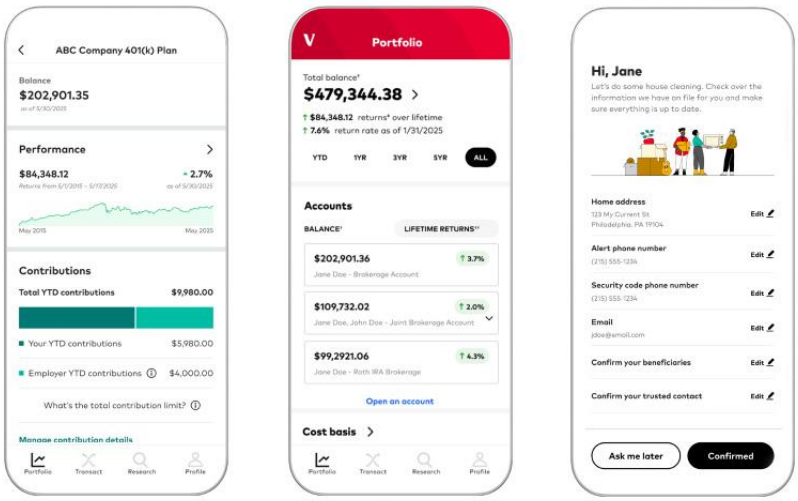


Figure 14
Vanguard Mobile Application Interface.

The following screenshots (Figures 15 and 16) display the interfaces for Kalshi and Polymarket, respectively.

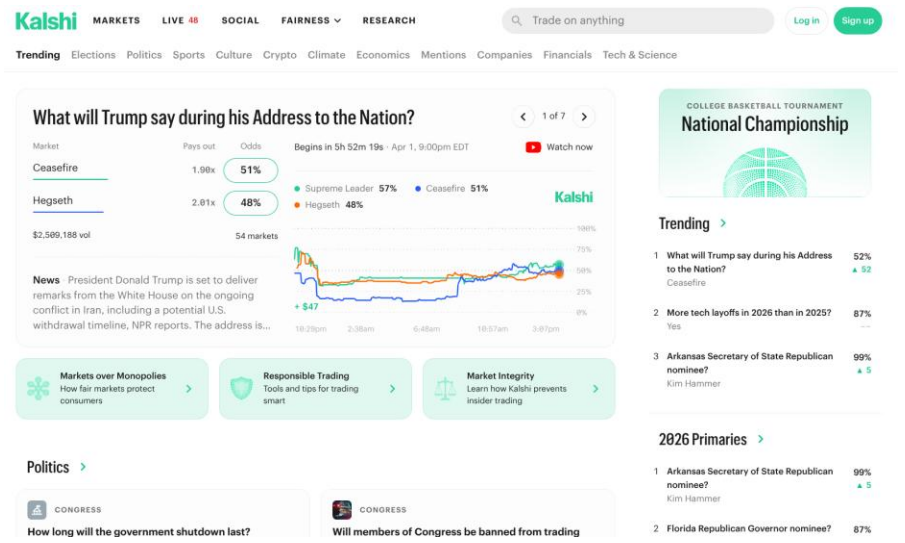


Figure 15
Kalshi Web Interface

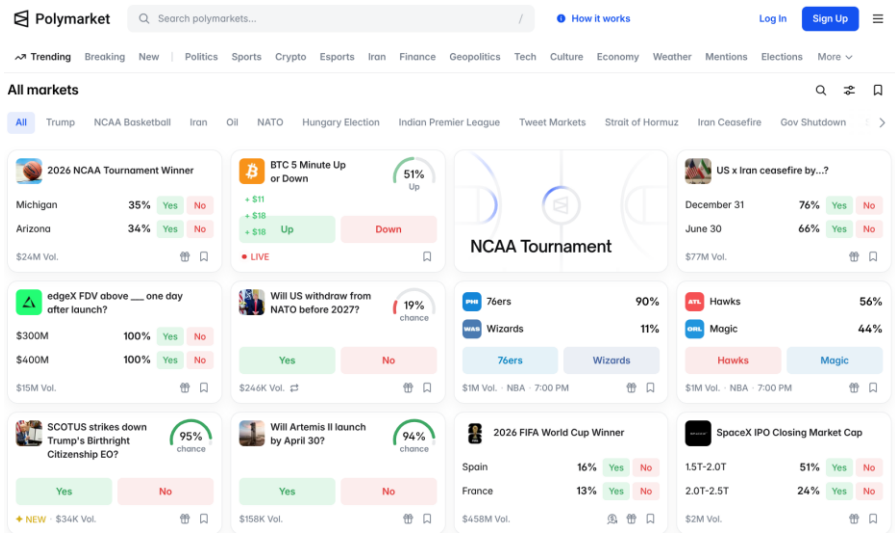


Figure 16
Polymarket Web Interface.

In the case of both, there is a clear aesthetic shift away from the clinical approach traditional financial platforms utilise. The use of vibrant colours for “Yes” and “No” or “Up” and “Down” options, simple displays of probability, and modernised mobile-first design closely mimics popular sportsbooks such as DraftKings, or social media platforms. The inclusion of live events, a section for trending predictions, and social features such as profit and bet-volume leaderboards, all contribute to this comparison.

Figure 17 is a visual comparison between Kalshi and the DraftKings mobile app view of the same event: Men’s College Basketball Champion. The two applications are nearly indistinguishable from one another. They share app design, colour themes, and button placements, only differing in the odds displays due to prediction market odds functioning differently than traditional sportsbooks.

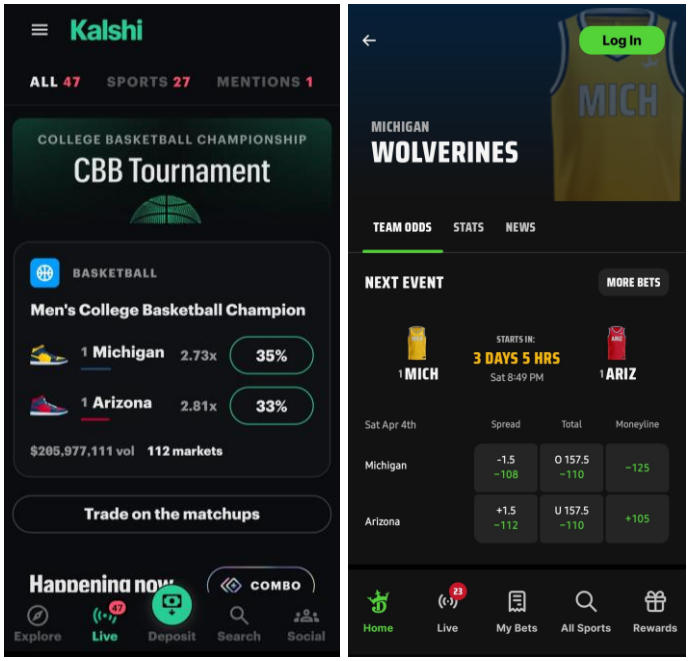


Figure 17

Interface Comparison Between Kalshi and DraftKings. Note. The prediction market application heavily mirrors the visual design of a traditional sportsbook.

The “gamification” of complex financial derivatives through intentional visual design choices and language is an implicit effort towards the lowering of the user’s cognitive friction. Bright colours, simplified betting displays, binary choices, and the distraction of pop-culture or real-world topics push the brain into an entirely Peripheral Route of processing. The branding of predictions as financial tools downplays the financial risk of involvement. In line with traditional sportsbook UI design, there is an abstraction of financial risk, causing users to not fully process the fact that they are indeed placing bets on real-world events. The interactivity of live bets and social features such as leaderboards and chatrooms contribute to the experience of using these prediction markets as environments of interactive entertainment. Users are therefore more likely to engage with topics on these platforms on an emotional level rather than through the Central Route for analysis of the data presented. Persuasion Knowledge remains dormant, with cognitive defences not properly alerting users to the potential for monetary loss as a result of their decisions on these platforms.

While prediction markets have a strict age policy, requiring users to be 18 years of age or older, their existence and rising popularity alongside the influx of traditional sportsbooks serve as a potential end of the youth consumer pipeline. This journey begins with social media, as discussed in Section 4.1, as algorithmically driven short-form content strips away at users’ natural cognitive defences towards advertising. Digital gaming environments, as mentioned in Section 4.2, serve as the next stop, building upon these neutralised defences to systematically condition users through variable ratio reinforcement and digital, non-fiat currencies. This environment results in a mass of users with lowered cognitive defences and a lack of understanding of implied financial risk. Upon turning 18, constant exposure to prediction

markets due to the normalisation of these platforms in the modern cultural zeitgeist results in the "graduation" of youth consumers into "gamified" financial platforms and prediction markets.

The common denominator across these three case studies has been the intentional manipulation of the ELM. Whether it be "GRWM" videos, CS:GO cases, or a Sportsbook-style trading interface, design choices blatantly obfuscate true intent, forcing Peripheral Route processing. The high state of mental arousal due to the nature of entertainment media consumption results in the PKM never activating. Users never realise they are being sold to, conditioned, financially exposed, or preyed upon.

Regulatory bodies such as the FTC, CFTC, and state gambling boards are fighting a modern, vastly interconnected ecosystem through a framework of antiquated, isolated definitions. Regulation built for an era of television commercials, physical casino chips, and agricultural futures fundamentally lacks the ability to govern the current digital landscape of entertainment, finance, and gaming, merged into a singular user experience. These "technically fine" loopholes are functioning exactly as intended by the architects of the aforementioned platforms. The compromised state of the current-day regulatory framework necessitates reform and a shift in approach to properly address the dangers that have emerged in a now digital consumer era.

CHAPTER 5

DISCUSSION & PROPOSED SOLUTIONS

5.1 THE ARCHITECTURE OF THE "TECHNICALLY FINE" LOOPHOLE

The exploitation of youth consumers is not a byproduct of digital platforms. These digital platforms have been created from the ground up to foundationally allow for this exploitation. It is a fundamental reality that for-profit corporate entities will leverage any available mechanism to maximise profitability. A true capitalist system places responsibility on the government to keep corporations honest with proper regulation and incentive that results in the benefit of society. Platform architects benefit by intentionally operating in the grey areas of outdated legal frameworks. As long-standing legislation is surpassed by these technological developments, the laws meant to guide society towards a better future are used as the shields that stifle the very progress society seeks.

The internet is an all-encompassing global technology. The regulatory bodies that aim to combat consumer harms on internet platforms are fragmented by nature. The FTC handles deceptive advertising, state gambling boards are responsible for casino gambling, and the CFTC deals with financial markets. Historically, the isolated focus for each of these entities was justifiable due to the physical environments required for these activities: televisions for advertising, physical casino floors for state gambling, and stock exchanges for financial markets. However, digital technologies and the modern smartphone have absolutely shattered this physical division. On the same device, in the same physical location, a youth consumer can be exposed to an undisclosed Drunk Elephant advertisement, open a CS:GO loot box, and see odds

to the latest trending Polymarket bets via social media feeds. Compartmentalised regulatory efforts are clearly unequipped to deal with a digital ecosystem.

The “gamification” of these interconnected platforms has intentionally forced Peripheral Route processing. By prioritising entertainment and high-arousal social interaction, these platforms are able to suppress the activation of Persuasion Knowledge. Given that this environment has proven to be effective even in adult demographics, youth audiences, who structurally lack the cognitive resources to protect themselves, have their natural defences bypassed entirely.

Beyond the fragmentation of domestic regulatory agencies, regulation is further impeded by the borders of national jurisdiction. Laws passed by any one governing body remain geographically bound, functionally irrelevant to a borderless digital ecosystem. Patchwork global regulation allows for exploitation. Consumers easily bypass geographical restrictions using VPNs, and platform architects can simply shift their base of operations to more lenient jurisdictions. This combination of jurisdictional fragmentation and easily accessible tools that allow for personal circumvention leads to national legislation remaining largely ineffective. Attempting to stretch 20th-century law over 21st-century digital architecture is a failing strategy. The regulatory response must be unified and structurally updated to combat a unified digital ecosystem.

5.2 MODERNISING REGULATORY FRAMEWORK

In order to begin dismantling “technically fine” loopholes from all aspects of the digital pipeline, the regulatory approach must change from a reactive, patchwork strategy to a focus on structural modernisation. Specific agencies must update their perspective when regulating material. A coherent shift throughout all relevant regulatory bodies is necessary to match the unified modern digital ecosystem.

The FTC must address the Persuasion Knowledge bypass present in current advertisement disclosure on social media platforms. The most efficient way to combat this insufficient cognitive recognition of advertising is to increase cognitive friction platform-wide. Mandatory, visually loud borders around any content that contains sponsored segments alongside auditory acknowledgement of sponsorship at the start of a sponsored video would provide an actionable foundation towards regulatory modernisation. Due to the entertaining nature of content on social media platforms, explicit disruption of this entertainment is necessary for proper reinforcement of Central Route processing.

The legal system as a whole needs to start considering secondary market liquidity of digital assets. According to the Terms of Service, CS:GO skins have no real-world value. However, this is practically false, due to one’s ability to sell CS:GO skins in exchange for real money on the secondary market. This truth would aid in the reclassification of variable ratio loot boxes such as CS:GO cases as a form of gambling, regardless of the closed-system defence. Additionally, this secondary market consideration places the onus on the platform designer to ensure the enforcement of its closed system.

Regarding the "gamification" of financial interfaces, strict UI/UX mandates could be established for retail financial derivatives. Analysis of a platform's visual design should hold weight when determining the intention of the service. With thorough review, the intentions of platforms such as Kalshi and Polymarket would be made evident, aiding financial regulation to pursue enforcement of the proper, responsible use of financial derivative markets.

In all of these cases, enforcement of policy is also a necessary focus. Legislative change is pointless if the legislature is not backed up by enforcement action. Placing further responsibility on platform architects and enforcing punishment for infractions is essential. Ultimately, the goal of targeted legislation should be to create a system in which corporations are incentivised to self-police properly.

Ultimately, a joint digital task force is necessary for any sustainable progress. This thesis has only analysed three disparate cases in which digital technologies have allowed for "technically fine" loopholes to skirt around the regulatory intent of laws. Undoubtedly, other digital sectors experience similar scenarios. Relying on 20th-century agencies to police a 21st-century ecosystem all but guarantees continued future exploitation. The U.S. government must properly acknowledge the reality of this interconnected digital landscape and establish a united legislative front to regulate these platforms.

5.3 PROPOSED SOLUTIONS

The regulatory framework suggestions in 5.2 would serve as a foundation for comprehensive, top-down reform across multiple governmental agencies. The reality is that structural reform is a historically slow and difficult process. Legislative bodies often operate reactively, and corporate lobbying actively stalls proactive legislation. Such lobbying presents a significant barrier to reform considering that the status quo proves highly lucrative for the aforementioned corporations.

Profit is the ultimate goal for these digital pipelines. "Technically fine" loopholes exist because they are currently some of the most efficient, legally permissible ways to generate revenue as a business. Corporations defend this status quo because the financial incentive structure rewards exploitation.

The goal is to invert the incentive structure so that acting ethically becomes more economically viable than acting unethically. Corporate entities have no reason to self-regulate if it harms their bottom line, meaning that this inversion of incentives requires external pressure. A primary prerequisite of ideal structural reform is digital literacy advocacy. The core issue this thesis aims to highlight is that the targets of this digital pipeline (youth consumers) lack Persuasion Knowledge, and the adults responsible for these youth consumers lack technical knowledge.

The immediate solution, and one far more attainable than structural reform advocacy, is the education of the adult population to better understand these youth-consumed industries. Increasing adult literacy regarding concepts such as ELM manipulation, variable ratio

reinforcement, and “gamified” UI will create necessary market friction. An educated consumer who understands the systems of manipulation can actively choose to withhold financial support, providing the foundation for a grassroots political demand. Education translates to structural change, with the pressure from constituents serving as the only meaningful force capable of compelling lawmakers to establish a unified regulatory framework. Ultimately, this informed public demand acts as the necessary counterweight to corporate lobbying.

CHAPTER 6

CONCLUSION

6.1 SUMMARY OF FINDINGS

There exists research on children's vulnerability to advertising, influencer marketing, and game monetisation. Consumer protection laws address only partial aspects of the overall picture. It has been established that children lack persuasion knowledge and advertising literacy, and that parasocial relationships with influencers blur the lines between promotional and personal messaging. The parallels between the mechanics of loot boxes and CS:GO skin gambling are identical to those of traditional gambling, demonstrating the regulatory failure and inability to stay updated with developments in these industries. The same holds true for prediction markets and the way financial market futures have been co-opted by platform architects to create "gamified" financial gambling platforms.

A majority of the studies referenced in this thesis have remained fragmented, focusing on the individual case-by-case basis rather than looking at the big picture with regards to how each of these elements are reinforced by one another in the broader digital media ecosystem. This thesis establishes how the dynamics present in each of these cases of "unethical practices" overlap: how this concept of "technically fine" and "morally gray" loopholes is allowed to proliferate unchecked, affecting adolescent development. Formally compliant disclosure and monetisation practices can still be considered bad-faith interpretations of the law, and the potential ways we can attempt to combat these systemic interactions must be explicitly explored.

6.2 SCHOLARLY CONTRIBUTION

The primary scholarly contribution of this research is in the form of theoretical synthesis. By showing the connections between seemingly disparate areas of study, this thesis intends to highlight the importance of research in these areas from a different, macro perspective. The Elaboration Likelihood Model (ELM) and Persuasion Knowledge Model (PKM), established in traditionally applied research, are applied directly to modern UI/UX design in this thesis. Presenting this application to modern platform design has formalised how visual friction and "gamification" serve as intentional mechanisms to suppress Persuasion Knowledge.

Most research in these disparate areas of study remains siloed. Providing research that combines the academic fields of social media marketing (social media influencers), behavioural psychology (video game conditioning), and financial regulation (prediction markets) provides future scholars with a foundation to analyse other seemingly disparate fields and the ways they contribute to an increasingly damaging environment for youth development.

The concept of "technically fine" loopholes is intended to provide a new framework for scholars to understand regulatory drift in the modern age, functioning as a concrete model for demonstrating the ways corporate entities intentionally operate within the spaces between geographic borders and isolated regulatory agencies.

Lastly, the concept of the digital media pipeline aims to shift the academic perspective regarding incidents of digital exploitation. Rather than viewing these incidents as individual, isolated occurrences, this thesis establishes them as a continuous, intentionally designed pipeline that explicitly targets youth consumers.

6.3 SOCIETAL IMPLICATIONS

The way the political zeitgeist shapes discussions pertaining to digital media reveal that a majority of society remains unaware of the systems of predation established through “technically fine” loopholes. The goal of this thesis is to proliferate the understanding of these systems, positing that the narratives of discourse would be far different if the stakeholders, in this case, primarily parents, were aware of the ways in which their children are systemically preyed upon.

For parents and educators, this thesis aims to explain the systemic predatory conditions their children now exist in. Forces that aim to manipulate always remain present in some form. However, with a better understanding of the inner machinations of this system, parents will be better equipped to support their children to ensure they remain relatively unharmed. The fundamental message this thesis aims to present is that content categorised as “for kids” does not immediately make it entirely safe to consume.

At the regulatory level, this thesis provides insight into specific loopholes and issues found at a systemic level, in the hopes of inspiring future action. A heavy emphasis is placed on how platforms should share responsibility for facilitating these activities, highlighting specifically that current financial incentive structures only contribute to the problem. The need for structural reform is made increasingly urgent by the rapid acceleration of technological innovation due to artificial intelligence. If current regulatory efforts already fail to govern existing digital ecosystems, the impending widespread adoption of artificial intelligence will only widen the gaps of enforcement.

For marketers and influencers, this thesis aims to establish a comprehensive understanding of how their actions can have concrete effects on youth. The systemic structure of this predatory environment means responsibility is not wholly on the individual; however, the hope is to inspire some to be more aware, and potentially, act in alternative ways.

Ultimately, the intention of this thesis is not to frame the world as an unavoidable dystopia, but rather to highlight the power of informed advocacy. When society is equipped with an accurate understanding of how these digital pipelines operate, constituents can meaningfully contribute to the resolution of some of these systemic issues, paving the way for a more ethical and meaningful digital future.

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BIOGRAPHICAL SKETCH

Dante Hin-Gasco is a marketing professional and academic researcher. He holds a Bachelor's degree from Bocconi University in Business, Economics, and Finance. He is currently completing a Master of Arts in Emerging Communication at The University of Texas at Dallas. Professionally, Dante works as a Marketing Operations and Social Media Manager in the B2B Tech SaaS industry, and as a personal marketing consultant. With over five years of industry experience, his expertise primarily focuses on content strategy, B2B and B2C marketing endeavours, and digital campaigns. His academic research focuses on the intersection of digital media ecosystems, regulatory frameworks, and youth consumer psychology.

CURRICULUM VITAE

Dante Hin-Gasco

Digital Marketing & Content Manager

New York, New York • dantehingasco@gmail.com • https://www.linkedin.com/in/dantehingasco/

PROFESSIONAL SUMMARY

Creative Marketing Manager with 5+ years of experience driving content strategy and digital campaigns. Expert in SEO (100% growth), A/B testing, and leading creative teams to produce high-engagement assets for multi-channel brand growth.

WORK EXPERIENCE

ReadyWorks, New York, NY 05/2021 - Present

B2B IT Asset Management and Digital Operations Software

Marketing Operations & Social Media Manager

- **Campaign & Content Strategy:** Directed the content lifecycle for owned, earned, and paid media. Led a creative team to produce high-engagement campaigns across LinkedIn, X, Facebook, and outbound newsletters.
- **Growth & Analytics:** Achieved a 100% increase in search visibility in 4 months via targeted SEO and heatmapping. Conducted A/B testing on email and social channels to maximize ROI and engagement.
- **Brand Development:** Secured top-ranking Gartner recognition for a new software category (DPC) and coordinated third-party vendors for product licensing and collaboration.

Joint Industry Board of the Electrical Industry, New York, NY 06/2019 - 08/2019

Administrative and Benefit Fund Administration for the Electrical Industry

Security Department Intern

- Managed sensitive database projects and modernized legacy communication systems, ensuring strict adherence to security and confidentiality regulations.

ENTREPRENEURIAL PROJECTS

Bunnycave Studios (Founder) 12/2014 - 09/2019

- **Product Launch:** Developed and launched the beta for *Math for Honor*, a B2C educational video game, managing a team of developers through the full product lifecycle.
- **B2C Marketing:** Formulated and executed the company's go-to-market strategy, including pitching the product directly to Pearson PLC's Elementary School division.

EDUCATION

Master of Arts: Arts, Technology, and Emerging Communication 5/2026

University of Texas at Dallas, Richardson, TX

Bachelor of Science: International Economics and Management

Bocconi University, Milan, Italy

SKILLS

- **Marketing:** SEO Optimization, A/B Testing, Social Media Management, Content Strategy, Brand Storytelling.
- **Technical & Tools:** Google Search Console, Site Heatmapping, Agile Methodologies, Project Management.
- **Languages:** English (Native), Italian (C2), Spanish (B1), Japanese (A2), French (A2).