The Federal Trade Commission estimates that US consumers pay nearly $3 billion each year for fraud-ulent goods and services, and over 13% of surveyed consumers indicate that they have been defrauded. As large as these numbers are, they may not reflect the true economic damage from fraud if consumers’ general distrust of markets with fraud prevents mutually beneficial transactions. We characterize the loss in consumer confidence in markets with one kind of fraud: when a valueless object is made to seem identical, prior to sale, to a valuable legitimate good. This kind of fraud increases the effective price of obtaining a legitimate good, and thus acts as a tax on legitimate production. Adopting this framework, we analyze a market with a single legitimate producer and a single fraudster. We establish conditions under which the market does not collapse, solve for the equilibrium levels of legitimate and fraudulent production, and evaluate the benefits of increased anti-fraud enforcement. We find that markets are more likely to collapse when the fraudster’s costs are relatively low or the elasticity of demand is relatively high, show that fraud induces the legitimate producer to increase output and thus helps to mitigate market power, and establish conditions under which enforcement increases consumer surplus. These results provide insight into the optimal allocation of anti-fraud enforcement efforts.