

ECONOMICS OF IMPERFECT INFORMATION ON REGULATED MARKETS

Summary

Even a small amount of imperfect and asymmetric information can have a significant effect on the decisions of households and businesses. The amount of accurate information acquired can make a situation, where one company has the advantage over its competitors in the market. Information asymmetry can cause adverse selection or moral hazard. This creates an imbalance of power in transactions which can sometimes cause the transactions to go awry. Information asymmetry creates market failure and is also used as a justification for government intervention in a market, especially when a natural monopoly exists.

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