

Imperfect market information

a) The distinction between symmetric and asymmetric information.

Symmetric information; Inefficient market buyers and sellers have potential access to the same information.

Asymmetric information; Buyers or sellers have more information than other parties.

b) The significance of information gaps.

Information failure / information gap/imperfect information

↳ Where buyers and sellers or both do not have perfect information to make decision.

↳ Buyers possess imperfect information, overestimating the benefits of buying a good.

↳ There is a misallocation of resources because the product is bought too much composed to a situation where buyers have perfect information such as demerit goods and merit goods

Example of asymmetric information

1. Education; there is underconsumption of education as people underestimate the benefits of education which will be seen in the future.

2. Healthcare; Doctors have more information than patients, and they may over provide healthcare because of their financial interests

3. Insurance; Patient is patient may hide their health information when taking health insurance.

4. Pensions; Young workers pay too little into pension because they do not have full information about the loss of welfare after retirement.

5. Demerit goods e.g. alcohol, tobacco; Individuals are unaware of long-terms effects of consumption of demerit goods which will be seen in the long term.

6. Financial service; bankers often have more information about financial products than their customers. They might suggest customers to buy the risky financial product which generate the most benefits for themselves rather customers.