

Asymmetric Information

The aim of these activities is to give students a good understanding of what is meant by asymmetric information and how it can result in market failure.

1. Start off by doing the game described below on sheet 1. By the end of this, students should have some idea that where information is missing/unequal, the market doesn't work so well.
2. Follow this up with this clip from Tim Harford's Undercover Economist series:
https://www.youtube.com/watch?v=cYcsFyim_Cs
3. This should further establish the idea that information can be asymmetric and that it is often the seller that knows more than the buyer. At this point open the discussion up a little and ask whether the students think it will always be that way. Someone will probably come up with an example where actually the buyer knows more than the seller.
4. At this stage you can divide the students into pairs/small groups and ask them to come up with two lists on mini whiteboards – one list of situations where the seller knows more than the buyer and one where the buyer knows more than the seller.

Examples where the seller knows more than the buyer:

All technology purchases, dental services, wine, electricians/plumbers, labour market (I am the seller of my skills) food and drink products (use of horsemeat).

Examples where the buyer knows more than the seller:

Health and car insurance (I know what sort of driver I am and what my lifestyle is), 'experts' – antiques dealers at car boot sales and so on.

5. Once the students come up with a list you can share **some** of the links from sheet 2 or articles from sheet 3.
6. Finally, ask them how they think things could be improved – get them to think about either some of the clips you have shown them or the examples they came up with earlier.

Points to make include:

Governments increasingly regulate over information – tobacco packaging, labelling on food.

The internet is increasingly making a difference – price comparison sites and user ratings on websites such as Amazon (although see <http://vimeo.com/69269444> which draws attention to fake reviews).

Sheet 1

Necessary resources for this game:

A pack of playing cards is useful, but thick card would do instead.

The aim of the game is to get students to understand that where information is not perfectly symmetrical then one party in a transaction is likely to lose out, or the market may fail to reach an equilibrium at all (hence implying welfare loss).

The game simulates the market for second-hand cars.

Divide the class equally into buyers and sellers (if there is an odd number, then you will need to play). Give each of the sellers a red playing card numbered from 1–5. The numbers correspond to how much the supplier has paid for the car (ace = £1000, 2 = £2000 and so on). The numbers also broadly correspond to how long they will actually last.

Each of the buyers should be given a black card which shows their budget/willingness to pay.

In round one, the sellers must place their card face up in front of them. Each of the buyers can then go out to negotiate a deal. Each side is trying to maximise their consumer/producer surplus. This is quite straightforward. Record which deals were done for what price.

In round two, the buyer and seller cards are shuffled and redealt (although the sellers remain sellers and the buyers remain buyers). This time the sellers get to conceal their card. The buyers are then asked to buy a car again. The sellers cannot reveal the card at any stage but they can say whatever they want to make the deal happen – generally they will all pretend to have a high value car and demand a high price.

It should be that some buyers get a good deal and others do not. It is important to highlight those examples where a buyer has bought a 'lemon' (a low value car) for a very high price. And also pairings where no deal was possible. This is the effect of asymmetric information in the free market.

Sheet 2

Theatre reviews:

<http://www.standard.co.uk/news/its-hilarious--until-you-see-the-show-6696107.html>

Sunbeds (3 minute video):

http://news.bbc.co.uk/player/nol/newsid_7330000/newsid_7335900/7335944.stm?bw=bb&mp=wm&news=1&nol_storyid=7335944&bbcws=1

Car boot bargains:

<http://www.walesonline.co.uk/whats-on/arts-culture-news/best-car-boot-sale-antique-7299046>

Dentists (2 minute video):

<http://www.moneywise.co.uk/scams-rip-offs/consumer-rights/your-dentist-ripping-you-tv>

Smoking:

Short video of Phillip Morris CEO trying to persuade people that smoking is safe and small babies are healthy back in the 1970s

<https://www.youtube.com/watch?v=VpwcF3Malj8>

Short video of a tobacco executive saying that nicotine is not addictive

<https://www.youtube.com/watch?v=A6B1q22R438>

Food:

Video (3 minutes) on the use of recycled cooking oil in china

<https://www.youtube.com/watch?v=zrv78nG9R04>

Sheet 3

What a surprise! More lies than truth on online dating profiles?



It might shake your faith in human nature but it's the truth. Online daters often lie about factors such as age, weight and height. And when potential partners come face to face, there are often more lies about education, income, number of children and even marital status.

You can understand why people might want to enhance their image, exaggerate information about themselves and ignore their flaws in order to increase their chance of finding a partner. Don't we all sometimes cast a rosy glow on our otherwise dull and grey lives?

Some sources suggest that 61% of males and 59% of females will lie about their weight in their online profile. The anonymity of online profiles on dating sites make it easy to concoct a more attractive image.

Essex boy... made millions in 'biggest-ever eBay fraud'

At home in England, Gary Bellchambers was the invisible man with a modest ex-council house and a battered Ford Escort.

But in Pattaya, Thailand, he was known as The Man – a hugely successful businessman who had a string of luxury homes, membership of all the best clubs and a share of a £1.5 million yacht.

The reason for the double life was the 46-year-old's attempts to evade the attention of authorities at his official residence in Rainham, Essex.

He headed an extraordinary global network of criminals selling millions of pounds worth of counterfeit golf clubs to eBay customers in the biggest scam ever uncovered on the online auction site.



Unsuspecting customers also bought fake golf balls – some of which exploded when hit – as well as accessories, clothing, passes for an airline lounge, and even memory sticks.

Source: <http://www.dailymail.co.uk/news/article-1235839/Conman-dubbed-The-Man-millions-biggest-eBay-fraud-exploding-golf-balls-fake-clubs.html>