

1.3.4 Information gaps

- a) *The distinction between symmetric and asymmetric information*
- b) *How imperfect market information may lead to a misallocation of resources*

- Information gaps occur when people have inaccurate or incomplete data so make potentially 'wrong' decisions
- In a competitive market perfect information is assumed
- Causes of information failure:
 - Long-term consequences
 - Complexity
 - Unbalanced knowledge
 - Price information
- If consumers have better information which benefits themselves the MPB curve would shift to a higher equilibrium quantity
- Symmetric information: Both parties in a transaction have the same information which allows efficient allocation of resources
- Asymmetric information: One party in a transaction has more or superior information compared to another
- Moral hazard: insured companies are likely to take greater risks, knowing that a claim will be paid for their cover. The consumer knows more about their intended actions than the producer
- Adverse selection: buyers have better information than sellers, which can distort the usual market process by leading to missing markets as firms do not find it profitable to sell a good.
- Market information lead to misallocation of resources because:
 1. Merit goods are under-consumed and demerit goods are over-consumed
 2. Consumers may not know the benefits of merit goods or lack information about the harmfulness of a demerit good so fewer merit goods and more demerit goods are provided
 3. Information may be too complex to understand which people exploit
- Policies addressing information failures:
 - Labelling packets
 - Improved nutritional information
 - Advertising campaigns
 - Consumer protection laws