

The Economics of Information

By Syed Abul Basher

How little one is permitted to know about another person. Even if one is very attentive.

Amos Oz

Lately one of my friends has been offered a high-paid job in a local firm. He initially thought that he would receive the current market recruiting price for MBA's as his salary. However, when he actually faced the interview board he asked for much higher and was still able to get the job. One may question how: the answer is *information*, he had inside information regarding what the employer was actually prepared to pay to the prospective employee. Information as the word implies, to have known about something that is considered as an invaluable asset. From ancient time to present information is with us in some form or another and helping us in innumerable ways. However, the distribution of information is not always unique. Some seem to have more information than others do either because the former may have superior access than the latter or market for information may be imperfect. Information of this type is known as *asymmetric* (or *imperfect*) *information* in which one agent has more information than the other.

When information is imperfect, resource may be misallocated causing welfare loss to the society. In economics a voluminous amount of literature has been devoted towards discussing this welfare loss when asymmetric information exists. Having known the need for (perfect) information, this article will primarily discuss some adverse consequences of imperfect information in the light of Bangladesh's economy.

Goerge Akerlof (1970) first discussed the characteristics of asymmetric information in economics. Using a classic example he shows that usually seller of a product has superior knowledge about the product than the buyer. He mentioned about the automobile market where the seller actually knows better as which one is a good car and which is bad (a lemon). Buyer with scanty information regarding the quality of the product couldn't distinguish between the good and lemon car and ended up undermining the true quality of the good car. Notice how information asymmetry in this case misallocates the true product and causing welfare loss thereby.

Imperfect information is a universal phenomenon but it is of particular interest for developing countries as the cases of market failure is severe in the latter. Consider for example, the flamboyant growth of stock markets in Bangladesh in the last quarter of 1996. One without any hesitation could conclude that the growth of the market in 1996 did not follow the fundamentals of trading rules rather it was revealed by the enquiry committee that it was a case of manipulation among the stock brokers, members of stock exchange, and some evil owner of private institutions. The innocent investor who sold their utmost in the hope of gaining some windfall was trapped by the myriad vile practices of unscrupulous bodies. Truly, the individual investors should have been more cautious, unfortunately information regarding the true value of a stock was unidirectional where one party gained at the cost of other. As much as Tk. 380 crore flew out from the country causing huge losses to the local investors. We all know the hypotheses of an efficient market. Perhaps information symmetry is one of the prime criteria. From this standpoint, it is no wonder that the capital markets in Bangladesh are inefficient.

Perhaps the most acute case of asymmetric information exists in the manpower business. Often we see newspapers carrying captioned photographs of hundreds of Bangladeshi workers in foreign jails suffering inhuman pains. How has this happened? These workers are innocent people who have paid the market price for the job and are yet being slaughtered by the venal traders. Had

they (the workers) been aware about the venality of the contract, the future unpleasantness that they have to endure could have been greatly avoided. Once again, imperfect information is seen causing misallocation of resources.

In Bangladesh we often see people die due to drinking rectified spirit or other drinks with alcohol contents. People who have the habit of drinking such products obviously do not drink to die; rather they drink to temporarily escape from reality (as they define it). What happens is due to the dishonest practice of the sellers in this business. Sellers having the perfect information regarding the actual state of the products keep the buyers completely unaware causing loss of valuable lives. Recently it was revealed that a particular type of consumer item (*Dal*, to put it specifically) that used to be imported from Australia has been found to be inedible. We often hear discontent among buyers after purchasing a particular goods; either an apparel or an electrical good. Disputation regarding pesticides used in farming are really killing insects or hampering the environment still remains a burning question. Often we get our pathological lab reports which are hard to believe, or we may be stuck in a nasty traffic jam without notice. Even the government employer is unsure about the capability of potential employee during recruiting phase.

All these are unwanted outcomes of asymmetric information and of course there could be many more. The aim of this article is to identify the consequences of asymmetric information in Bangladesh economy. This article does not intend to provide any solutions. However, once the problems are precisely identified, solutions become clearer. For example, while information asymmetry has been identified as one of the key hindrances towards an efficient capital market, the roles of concerned bodies in the dismantling of such defect become imminent. Government knows what the SEC has to do in this regard and what else could be done to ameliorate the existing situation. Similarly, it is the sole duty of the labor ministry to stop faulty manpower business and administer things in an appropriate manner.

The Bangladesh economy is in transition from a centrally planned economy during 80s towards a market-oriented one in the 90s. However the old problems seem to be remain with us. One can not expect to meet the new century's challenges with so many innate defects. However failure in correcting the evils will continue to push us back no matter how many words are wasted in worthless speeches.

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