


Imperfect information and IT

On previous lesson

- ▶ Knowing information
 - Perfect, imperfect and asymmetric information
 - ▶ Knowing the behaviour of the others and rules
 - Imperfect
 - Incomplete
 - ▶ Searching and consequences
 - ▶ Information about price and quality
 - ▶ Auction models
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Information gap

- Subjects on the opposite sides of the market have a different information about the subject of exchange
 - Seller has better information about the car
 - The insurance company must trust in its clients responsibility
- Information gap is the difference between two subjects on the market
 - Is positive - if the subject knows the information
 - Is negative - if the subject does not know the information

Information gap

- Moral hazard - effect when the activity of one subject decreases the utility of the second subject concurrently with information gap on side of the second subject
- Information gap is not stable
- Examples
 - Try to find an example of the information gap you have met

How to fit information gap?

➤ Filling the gap

- By distribution of the information?

- Removal of subject's disadvantage, based on nascence of particular information

- Subject must be willing to invest to filling of the gap

- The first condition is to identify the gap

- The filling is the function of time

➤ Questions

- How will the subject fill the gap?

- Can the gap be filled by itself?

Filling the information gap

➤ Absolute

➤ The information are distributed from one side to the other

➤ Example

➤ Register of insured persons

┆ To know a history of new client

➤ Register of debtors

┆ To eliminate to risky clients

➤ Subjects facing negative gaps can join even if they are competitors

Filling the information gap

❖ Relative

❖ If there is no way how to get the information

❖ Example

┆ Bankrupt of travel agency

┆ The client has no power nor possibility to find the information

┆ Mandatory insurance of travel agency

┆ The client does not need to take care about travel agency finance

┆ Mandatory car insurance

❖ Relative filling is the eliminating of the gap's influence

More general attitude to information gaps

- Direct methods of filling

 - If the aim is particular information gap

- Indirect

 - The aim is more general

 - To prevent the creation of information gap

 - To solve whole problem

Indirect method to fill the gaps

❏ Source of information

- ❏ Subject that provide the knowledge or information

- ❏ The way of transfer of the information

- ❏ Primary source

 - ❏ Author of information

 - ❏ No changes on the character of information

- ❏ Secondary source

 - ❏ Information is transformed

❏ Information channel

- ❏ If more sources of information join to use the same way of transfer

Using the information channel

- Random consumption of information
 - Using secondary sources
 - TV news, information servers, social networks
 - Subject do not search anything specific
 - Just they need to be informed
 - The need to share information
- The question of trust to the secondary source

Internet

- What is internet?
- Information channel
- Subject has to know what is he searching for to use it properly
- Ideal platform to find the market equilibrium

Role of IT

➤ IT is a tool to:

➤ fill the gap - to distribute information

➤ To eliminate the gap - using IT services to interconnect subject with negative effects of a gap

➤ Manage the information

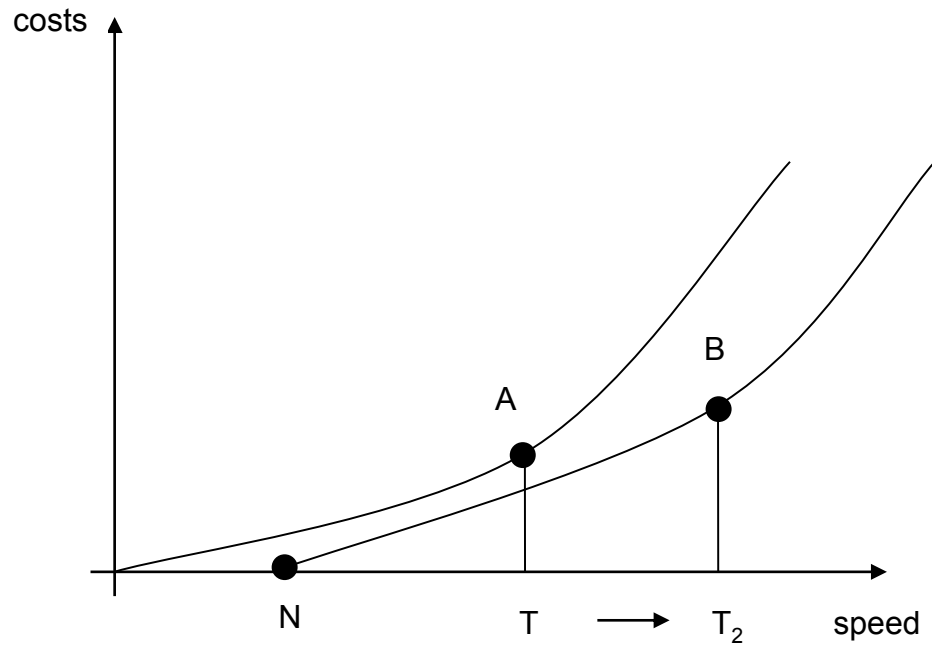
➤ To prevent the influence of the gaps

➤ To eliminate the gaps

The price of information

- Is almost individual
- It is equal to the searching (opportunity) costs
- It is important to divide the price of information and the price of access to information
 - To buy the possibility to search
 - To buy a possibility to share information
 - The question of technology
 - Higher speed means higher probability to find what I am looking for

Technology progress



Government and information

- It needs the information for making of the decisions
- It is important source of information
- It is supervisor on the market with information

Government as the information receiver

- The most of analysis is done by
 - state institutions
 - ministry clerks
 - National bank
- The government is the source of information for itself
 - The analysis can be wrong
 - The decisions can be wrong - moral hazard
 - The question of time

The government and searching of information

- Where is the equilibrium of searching
- Stigler model does not work
 - The process of searching is excluded from the process of evaluating and using of the information
 - The person who is searching does not know the effect
- We can not be sure that the government has right information
- We can not be sure the information are correct
 - Moral hazard
 - The Greece

The government as the source of information

- The government is not one source of information
- The motivation of the clerks
 - To publish only the information that are good for them
 - Moral hazard
- The subjects need the information from other source to prove it

The government regulates the market of information

➤ Direct approach

- Problem of the identification of information gap

- Absolute filling

 - How to do it

 - Law - market subject must give some information to the register

- Relative filling

 - Not necessary to identify a specific problem, just a group of problems

 - Mandatory insurance

The government regulates the market of information

❖ Indirect approach

- ❖ Development of information sources and channels
- ❖ Support of using services
 - ❖ Data mail-boxes
 - ❖ Digital signature
 - ❖ E-government
- ❖ Supporting the development of the information access

Conclusion

➤ Information gap

- Filling the information gap

- Information source

- Information channel

- Role of government

➤ Role of IT