


Asymmetric Information: problems+solutions

Moral hazard

Adverse selection

Solutions

Asymmetric information	Example	Government Responses	Market Solutions: signaling + screening
Moral Hazard	Great Recession: derivatives market	<ul style="list-style-type: none"> Fines + Penalties 	
Adverse Selection	VW emissions scandal	Regulation / Legislation <ul style="list-style-type: none"> Rules + acceptable practice Fines + Penalties Government information to inform/educate 	SIGNALING: i.e. inform consumers to make a good selection/choice e.g. car dealers offer a warranty to 'protect' the consumer from a defective car.
			SCREENING: Firm can recover information from applicants in order to determine the service and price that will be offered e.g. drivers who are accident free and of a certain age will receive a lower entry price for car insurance