TABLE 1-1

Comparing transaction costs in emerging and developed markets (2007)

Country	Start-up procedures to register a business (number)	Time required to build a warehouse (days)	Time required to enforce a contract (days)	Time required to register property (days)	Time required to start a business (days)
Emerging markets					
Argentina	14	338	590	65	31
Brazil	18	411	616	45	152
China	13	336	406	29	35
Czech Republic	10	180	820	123	17
India	13	224	1420	62	33
Indonesia	12	196	570	42	105
Israel	5	235	890	144	34
Republic of Korea	10	34	230	11	17
Nigeria	9	350	457	82	34
Pakistan	11	223	880	50	24
Russia	8	704	281	52	29
Turkey	6	188	420	6	6
Developed markets					
Australia	2	221	262	5	2
Canada	2	75	570	17	3
Germany	9	100	394	40	18
Japan	8	177	316	14	23
Norway	6	252	310	3	10
United Kingdom	6	144	404	21	13
United States	6	40	300	12	6

Source: World Bank Group, World Development Indicators, WDI Online.

owning and maintaining a car for five years and driving it for sixty-five thousand miles, the seller knows the condition of the car far better than the buyer. Unfamiliar with the car and its seller, the buyer will therefore approach the transaction with a degree of apprehension and mistrust. Is the seller selling a used car in decent working condition, or is he peddling a car with inferior quality relative to its price—a lemon? Is the car worth the price being asked?

The difference in knowledge about the car between buyer and seller—what economists call *information asymmetry*—and lack of trust make the buyer wary of taking the seller's claims of quality at face value. As a result, a prudent buyer generally is reluctant to pay the price asked by the seller. Given these conditions, how can the buyer and seller consummate the transaction to their mutual satisfaction?

One obvious solution, practiced in ancient bazaars for centuries, is price bargaining. Suppose the seller is asking $10,000 for the car. The buyer can respond by offering a lower price—say, $6,000—to compensate for the variety of unknowns. If the seller finds the price acceptable, the transaction will take place; otherwise, the seller will walk away.

But simple bargaining leaves most market participants unsatisfied. Why? The seller has a pretty good idea of the true value of the car, so he will be happy with the $6,000 offer from the buyer only when it exceeds the car's true intrinsic value. This, of course, means that the buyer would have overpaid for the car even though the bid price is substantially lower than the asking price. In contrast, if the seller were honestly representing the facts of the car's quality and asking a reasonable price given its true value, he would find the $6,000 bid from the buyer unattractive, prompting him to walk away from the deal. Thus, with a strategy of bargaining for a price lower than the asking price, the buyer will consummate only deals that are systematically adverse to his interests.[11]

This type of used car market leaves buyers unhappy, because they systematically overpay for any given level of quality. Sellers of genuinely high-quality cars will find no takers, because the market-clearing prices are always lower than sellers' assessment of fair prices. The only participants who will be happy are sellers who sell lemons at an inflated price. Clearly, this type of market will not last very long because sellers of genuinely high-quality cars will learn not to use it, and buyers will regret their purchase decisions and will learn to avoid it for future transactions.

There is, fortunately, a simple way to fix the problem in the used car market. The buyer and seller can agree to take the car to an independent expert mechanic who tests the car for its quality and provides an assessment of