its intrinsic value. Based on this independent expert opinion, the buyer and seller can agree on a price.

How does the independent expert alter the situation? The expert opinion reduces information asymmetry between the buyer and seller and creates a basis for agreeing to a price based on common information. As a result, genuinely good-quality cars are likely to receive a fair price, so sellers and buyers of those cars will be happy with the transactions. Moreover, lemons will be exposed for what they are and accordingly will be priced lower. So buyers will either avoid them or, if they choose to buy them, will not overpay. The only players who will be unhappy with the introduction of the independent expert mechanic will be potential sellers of lemons. Because the used car market with the independent expert functions far more reliably than the one without such an expert, both the buyers and the sellers of good cars will be happy to pay for the services of such an expert.

All purchase and sale transactions in product markets for goods, in labor markets for talent, and in financial markets for capital and securities involve information problems and incentive conflicts. As a result, there are plenty of ways in which these markets in any economy may fail to work efficiently and effectively.

We can draw three important lessons from the used car market example. First, information asymmetries and incentive conflicts between buyers and sellers create significant problems in markets. If these issues are not addressed properly, they will lead to a loss of confidence among market participants and potentially to the breakdown of the market. Second, it is possible to devise institutional arrangements—such as the independent mechanic's expert evaluation in a used car market, or passive intermediaries such as Kelley Blue Book and Autobytel—to mitigate these problems and make the markets work significantly better than they would otherwise. Developed economies have devised many such institutions to make their markets work well.

Third, even though such institutional arrangements make many market participants better off, their emergence will adversely affect those benefiting from institutional voids, such as those who sell faulty cars. The

creation of market institutions will be resisted by such groups. Building market infrastructure is thus a matter of both economics and politics.

How Developed Markets Work

Developed markets for products, talent, and capital are full of institutions that are the equivalents of the independent car mechanic in the used car market. To reduce the transaction costs that arise from the differential information between buyers and sellers and to limit potential conflicts of interest, markets need institutions to intermediate between buyers and sellers of goods, services, and capital. High transaction costs make an economy inefficient, leading to higher cost of capital, less labor mobility, and increased cost of trading. Beyond transaction costs, absent market institutions are critical sources of operating challenges.

From protecting intellectual property to reaching customers, businesses need market institutions. Developed economies, in their quest to mitigate transaction costs and facilitate commerce, have developed several complementary solutions that together make information disclosure credible, enforce constraints reliably, and regulate markets fairly. Disclosure of high-quality, credible information reduces information asymmetries. Enforceable contracts ensure that buyers can be confident that sellers will not behave opportunistically. By providing aggregation, certification, analysis, and advice, market intermediaries help buyers and sellers come together to conduct transactions efficiently. Finally, market regulation ensures fair play by all parties by defining and enforcing a clear set of rules.[12] Consider the important roles played by market intermediaries in product, capital, and labor markets.

Product Markets

In developed product markets, consumers are able to search for their desired products based on information provided by companies through advertising in newspapers and magazines, direct mail marketing, telemarketing, Web sites, and other forms of communication. Further, consumers have access to third-party information providers, such as the