

Chapter 8

Information Problems in Competitive Markets and Their Impact on Labor Markets

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ABSTRACT

Economic agents should be fully informed in order to maximize welfare by removing market disruptions. The full knowledge which is one of the assumptions of the traditional economic approach has been rejected in the recent studies and it is stated that the information is lacking and asymmetric and therefore market disruptions come to the forefront. Information created under certain conditions that economic agents use in their decisions and actions does not remove the problems of adverse selection and moral hazard. Information asymmetry among individuals will be minimized through institutions to be established in the obtaining, usage, and transfer of knowledge. Institutions such as signaling and discrimination, which will be created in the labor market in particular, will be able to provide economic efficiency by selecting qualified staff and paying based on efficiency.

INTRODUCTION

The traditional economic approach is working on the assumption that full competition markets and economic agents give rational decisions with full knowledge in the markets, and they are in balance. But the issue of equilibrium is a matter that has qualities beyond this assumption. Because the market has a complex structure, and there are many variables that affect the operation of markets.

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One of the key elements that affects the operation of markets and the decisions and actions of economic agents is knowledge. The information mentioned here is the information about the quantity, quality and price of the product on the market, where the economic agent is acting or making the choice. The information on the quantity and the price of the product is the one that can be obtained easily and inexpensively, especially in the light of the developments in today's information technologies. But we can not say the same about the quality of goods or services. Uncertainties about quality have influenced individual actions and decisions in the past, and they are still affected today and these effects are expected to continue in the future.

Individuals have the opportunity to acquire some of the information they need in a variety of ways. However, we can not say that each individual has the same knowledge of one subject. While an information is missing for some individuals, it is too much scattered and asymmetric for others. This structure of knowledge also makes the output of knowledge different for each individual.

The fact that information is asymmetric causes many problems in the operation of markets. Due to asymmetric information, economic agents have to make adverse selections, invest in inefficient areas and consume poor quality goods and services at high prices.

Some institutional mechanisms are proposed to overcome this lacking and asymmetric information problem in the markets. These institutional mechanisms will be established by the economic authority as well as by the interaction of the units operating in the economic organization in the sector.

Unlike commodity markets, there is a lack of productivity in the labor market due to the lack of information. Since it will affect other commodity markets area, it needs to be focused on with precision. It is obvious that it is necessary to use quality input to produce quality goods and services. However, achieving full knowledge in terms of the labor force, which is the most important input item, has some difficulties. Employers who are willing to work to overcome these challenges and reach full and accurate information about the workforce focus on signaling what they are doing with their talents. The information obtained as a result of these activities not only affects the company's recruitment decision but also provides the employer with data to be used throughout the business life.

In this study, focusing on information problems in the markets, understanding the concepts of knowledge and uncertainty are explained, and the problems arising from asymmetric knowledge are addressed; a literature search is made on how these problems are solved in terms of labor market.

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