

## Learning Objectives

### Chapter 22

#### **In this chapter you will:**

- Examine how asymmetric information distorts market outcomes
- Examine the problems caused by asymmetric information
- Learn about the role of signalling and screening as a means of reducing asymmetric information
- Look at the limitations of public policy in solving asymmetric information
- Consider why democratic voting systems may not represent the preferences of society
- Consider why people may not always behave as rational maximizers

#### **You should be able to:**

- Explain the difference between a principal and an agent
- Describe the information asymmetry in at least two different markets
- Explain why insurance companies screen potential customers
- Generate an example of the Condorcet voting paradox
- Explain why people are willing to sign contracts that require them to contribute a portion of their salary to a retirement savings program
- State at least three systematic that human beings make when making decisions