

# INFORMATION BREAKS DECISION: A STUDY ON USED CAR MARKET IN KERALA

Resmi C.P\* & Akhilesh Aravind\*\*

\*Assistant Professor on Contract, Department of Economics, BCM College, Kottayam-Kerala

\*\* gakhileshnair94@gmail.com

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Consumers cannot know more about the quality of the product at the time of purchase of a used car in a market with asymmetric information. The existence of goods of many grades stances an important problem of the market whether a car is a lemon (bad quality) or a cherri (good quality) car it is private information that is only known by the owner (Genesove, 1993). One of the underline assumptions of the fundamental welfare theorems is that the characteristics of all commodities are observable to all market participants. However, this is not reality because the participant often holds this information asymmetrically and also prompts behaviour change in handling the good in subject by one party before or after transaction. In many instances of asymmetric information the informed side of the market self-select in a way that it is harmful to the uninformed side of the market.

The situation of moral hazard occurs; consumers of used cars in this market can't identifies if it's a good or bad (lemon) car until after they purchase the car. Thus, there is an element of uncertainty and ambiguity which makes the market inefficient. If the car quality cannot be identified by the consumer when he/she purchase and reputation cannot be built, car sellers have no incentive to supply high quality cars in the absence of warranties (Mark Voorneveld & Jorgen W. Weibull, 2011). Since lemons can be produced at a lower cost, they yield higher profits. Therefore, the buyer cannot ascertain the value of the car accurately and may only be willing to pay an average price for it somewhere between a bargain price and a premium price (Nwauiko Azubuike Philip & Ashinze Agiliga Paul, 2015). However, this tilts the scale in favour of a lemon seller, since even an average price for the lemon would be higher than the price it would command if the buyer knew beforehand that it was actually a lemon.

## **SIGNIFICANCE OF THE STUDY**

Buyers of used car market is always experienced uncertainties and ambiguities and not been able to assess the quality of a used car at the time of purchase; it therefore shows that the buyers of used cars bear the economic cost of dishonesty because of the quality uncertainty. Therefore the study tries to explain the problem of information asymmetry in the Kerala used car market. It would also enable used car sellers to know the kind of incentives or market signalling they would send to buyers to avoid disequilibrium in the transaction.

It is hopeful that the findings of the study will be of tremendous benefit to the fair in the used car market. The outcomes of this study are also expected to benefit the used car sellers and buyers in Kerala. The study attempts to answer the following questions;

1. What are the factors that prompting the demand for used car ?
2. What are the factors that influences the selection of a used car ?
3. What are the major problems faced by used car customers in the study area ?

## **OBJECTIVES**

Following are the major objectives of this study,

1. To findout the factors that prompting the demand of used car.
2. To identify the influencing factors for the selection of a used car.
3. To analyse the problems faced by the used car customers.

## **METHODOLOGY**

Data is planned to be collected from the primary and secondary sources. This study explores the effect of asymmetric information in the Kerala used car market through the responses of used car buyers) in the Kottayam Municipality. A sample of 50 used car customers was drawn from this market and used 50 closed-end questionnaires were distributed.

For meeting the second objective of this study (To assess the information asymmetry between buyers and sellers) a research technic called Likert Scale Survey is used. It is a psychological measurement

device that is used to gauge attitudes, values, and opinions( N.K Malhotra, 2005). It functions by having a person complete a questionnaire that requires them to indicate the extent to which they agree or disagree with a series of statements. Snowball sampling method is considered as the most appropriate method for the sample selection. This sampling method involves primary data sources nominating another potential primary data sources to be used in the research. In other words, snowball sampling method is based on referrals from initial subjects to generate additional subjects. Therefore, when applying this sampling method members of the sample group are recruited via chain referral.

### **FINDINGS OF THE STUDY**

In this study, through interview of various customers in organized and unorganized pre-owned car market, following are the findings of this study :

- There is a gender disparity in the kerala used car market, because 90 per cent respondent of this study are males.
- Majority of the used car buyers in the study area are educated
- Study reveals that major part of the buyers of used car market are self employed. They opt pre-owned cars mainly for their business purposes.
- Through this it is found that most of the used car transactions take place in the study area are taken place in unorganized market. A very small portion of the respondents purchased car from used car showroom.
- Majority of the respondent suggest that need for an additional vehicle is a major factor that prompting the demand for used car.
- Almost 90 per cent of the respondents considered purchasing of used car as an opportunity to upgrade from a two wheeler to four wheeler.
- Majority of the respondents those who purchase car from organized market or showroom suggest that easy finance facility is a major factor that prompting the their demand for used car.36 per cent of the respondents purchase pre-owned car because of their fresh experience in driving.
- Social status of the people is also a factor that prompting the demand for used car. But respondents does not reveal it openly.
- Lower and fair price is the major factor influencing the buying decision of used car 90 per cent of the respondents in the study area agree with this.
- Lower rate of depreciation is a factor that influencing the buying decision of the used car, but most of the buyers are not aware of this.
- 26 per cent of the respondents suggest that resale value is an influencing factor for buying used cars. Because they are planned to re sell the car in immediate future.
- The major problem faced by the used car customers in the study area is more price they paid. Almost 64 per cent respondents face this problem .
- More than half of the respondents argue that high maintainance cost is the another issue they faced.

### **SUGGESTIONS**

- Pre- owned car users seeks to reduce the risk of their purchase, sellers need to provide adequate information, guarantees and after sales services to reduce the perception of risk.
- The dealers should improve the existing attitude, information for purchasing pre-owned car through their detail information of used car and so on.
- Govt. Should take necessary rules and regulations regarding the smooth working of used car market.

### **CONCLUSION**

Information asymmetry is the major reason for many problems in the used car market. With the existence of information asymmetry sellers usually have better information than the buyers. But the extend of information asymmetry is different in unorganized and organized used car market. In the unorganized used car market buyers face many problems because here sellers usually have better information than buyers about their car. In other words extend of information asymmetry is very wide in this type of market. While in the case of organised used car market extend of information asymmetry is limited because here service of an expert is available. The price of used car is higher in organised market than in unorganised market, this price difference is actually the price for limiting the extend of asymmetric information. So that intensity of problems faced by buyers in unorganized market is higher than organised market.

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