

MICROECONOMICS AT WORK EXERCISE

A VIRTUAL MARKET

REFERENCE: Robert D. Hof, ‘The eBay economy’, *BusinessWeek*, 25 August 2003, pp. 89-92.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapters 2, 3, 7.

OVERVIEW

eBay Inc. is a company that runs an electronic marketplace. It started as an electronic ‘Trading Post’ particularly for used and remaindered (or ‘subprime’) goods, but has evolved to become the meeting point for millions of buyers and sellers of a very wide range of products worth US\$20b. A ‘market’ has traditionally been thought of as being defined by the geographical area that contains buyers and sellers. Mail order selling was one of the first ways that the market could be enlarged. Electronic trading, however, has taken this expansion much further. In addition, it has enhanced both the speed at which a transaction between a buyer and seller can take place and – more importantly as a determinant of how well the market works – improved the amount of information on which a transaction is based.

QUESTIONS

1. In what main way does the electronic marketplace provided by eBay enlarge the market for a particular product?
2. What is meant by the suggestion that ‘the system is utterly transparent’?
3. How does the system of buyer and seller ‘feedback’ help to improve the efficiency with which the market works?
4. What is the potential for fraud in an electronic market? Is it any bigger than in a physical marketplace?
5. What arguments are there for ‘regulation’ of this marketplace (and if there are arguments, regulation by whom)?
6. Give some examples to illustrate the suggestion by one commentator (quoted in the article) that ‘eBay is creating a second virtual economy’.