

The background is a dark blue gradient with faint, light blue technical diagrams. On the left, there is a large circular scale with tick marks and numbers ranging from 150 to 260. To the right, there are several circular diagrams with arrows indicating clockwise or counter-clockwise rotation, resembling mechanical gears or control panels.

WHO GETS WHAT – AND WHY?

ALVIN E. ROTH

CHAPTER 12

FREE MARKETS AND MARKET DESIGN

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SEE MARKETS IN NEW WAYS

RESTAURANT A

Reservation

- Seated with drink
- Order the meal
- Meal served
- Bill is brought to the table
- Pay and leave



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RESTAURANT B

Write names on waiting list

→ Wait outside

→ Seated and Order meals

→ Meal served

→ Pay the bill at cash register



RESTAURANT C

- Line up at cash register
- Order meals and pay
- Meal served
- Find a table and eat



DIFFERENT CONGESTION

TIME SPENT

■ Waiting for Seats ■ Waiting for Meals ■ Eating



DIFFERENT STRATEGIES

	Congestion		Tablecloths
A	Kitchen	Reservation	White
B	Dinning Room	Wait in line	Plastic
C	-	-	None





BEYOND CONGESTION

OTHER THINGS THAT MARKETPLACES MUST HANDLE?

SAFETY-QUALITY

How can you make sure that you'll get service and food as expectation?

- Local reputation
- Crowd-sources guides (Yelp, tabelog, ipeen)
- Franchise

SAFETY-HYGIENE

How can you make sure the food you get won't make you ill?

- Government regulation
- Health Code

“Food is subject to contamination from vermin” and
“No paper towels and no soap at kitchen hand sink.”

- Temporarily closure

REGULATIONS

The background is a dark blue gradient with a field of small white stars. On the right side, there are several technical diagrams. The most prominent is a large circular gauge with a scale from 0 to 210 degrees, marked every 10 units. It has concentric circles and a dashed line with an arrow pointing clockwise. Other smaller diagrams include a circular arrow in the top left, a circular arrow in the bottom left, and a circular arrow in the bottom right.

PUBLIC

Governments

- Property rights
- Contracts

- Ex. Own kidney but can't sell

Private Entities

- E-book
- Software

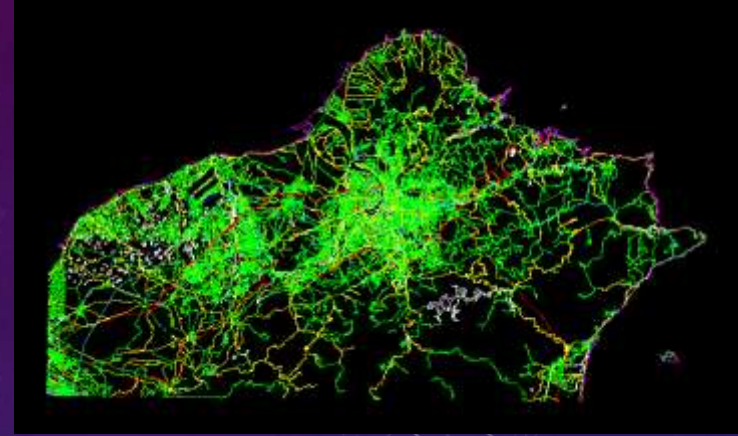
- Ex. Can't freely copy or sell books, licensed

OTHER REGULATIONS BY GOVERNMENTS

- City Zoning

Can't open a restaurant in a residential neighborhood

- Certain products
Can't serve
horsemeat in
California



However...

- Laws and regulations intended to govern multiple markets and marketplaces can have both good and bad effects



GOOD AND BAD DESIGN

- Bad designs can persist for a long time
- Take evolution for example
- Because

It takes time to discover better ones

Lots of market participants with a stake in the status quo, and many interests are involved in coordinating any market-wide change



HEALTH-CARE SYSTEM

- Payment system does not provide incentives to bring down costs or to stay well.

- Which one is better financed?

Clinic A: Educates diabetes patients on diet

Clinic B: Do dialysis or kidney transplants

Treatment > Prevention



An ounce of prevention is worth a pound of cure understated.

— Warren Buffett —

CHANGING HEALTH-CARE SYSTEM?

- Richard Nixon: Failed
- Obamacare?



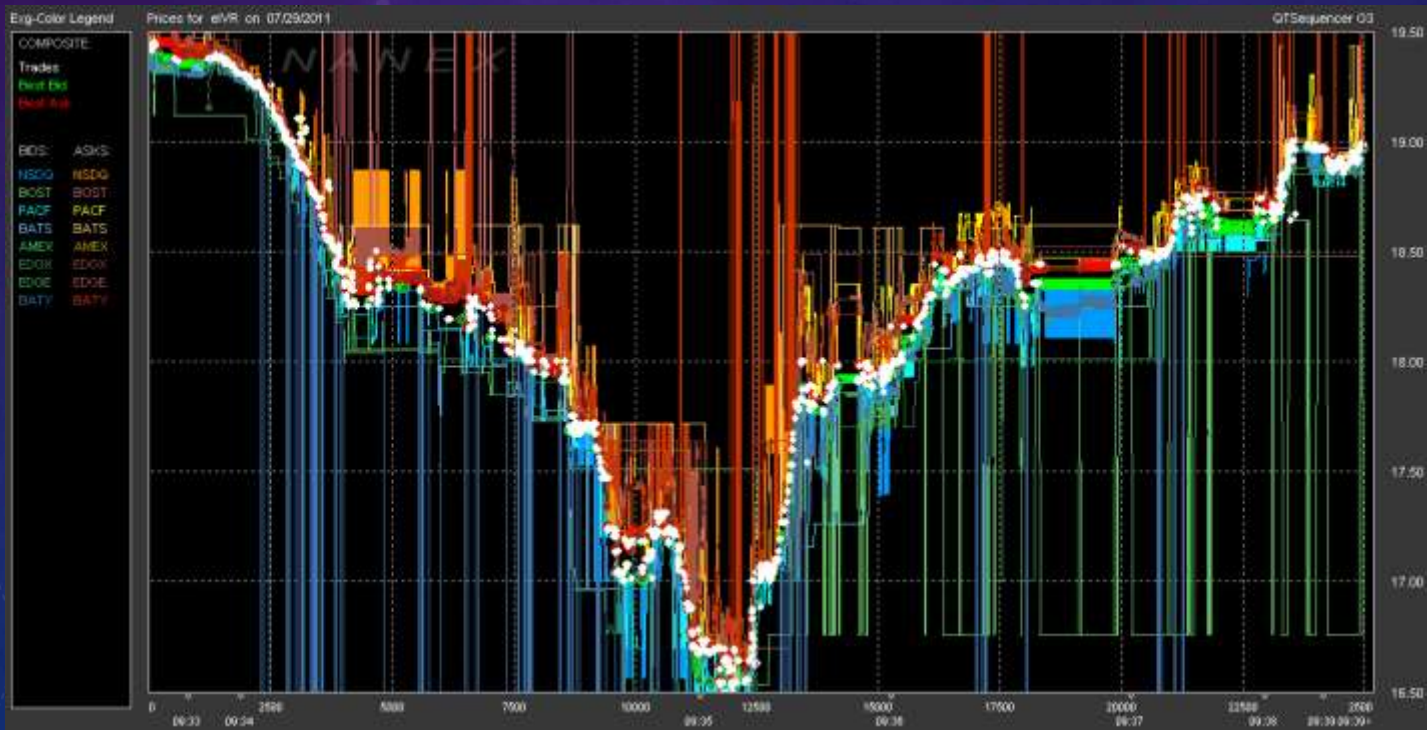
Where the beginnings of good design might emerge?

- Health-care policies of large companies that self-insure their workers



COMPUTERIZED MARKETS

- Made possible
 - Kidney exchange
 - “Package bidding” auctions (simultaneous ascending)
 - Advertising market by Google



FREE MARKETS



The attitude of the liberal towards society is like that of the gardener who tends a plant and, in order to create the conditions most favorable to its growth, must know as much as possible about its structure and the way it functions.

— *Friedrich August von Hayek* —

AZ QUOTES

- How much to regulate and how to regulate?
- An economic and political question

GOOD DESIGN OF MARKET?

- Used to be observed, passive economist
- Answer when to Intervene, redesign, and fix
- Learned, like engineers, medical, law practitioners



REHASH SOME CONCEPTS FROM WHO GETS WHAT AND WHY

Problems	Successful market
Unravelling market	Not too soon
Exploding offers	Not too fast
Slow execution	Not too congested
Black market	Not too risky

- Great Design
 - Deferred acceptance algorithm
 - Simultaneous ascending auctions