Market Mechanism and Transaction Costs

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The purpose of this article is to provide a framework for analysing the working of the market mechanism under the realistic conditions, such as informational uncertainty and the frictions involved in transfering goods. The implications derived from this research is the importance of the role of merchants for the working of market mechanism, in realizing transaction opportunities, forming equilibrium prices, and performing smooth settlements.

However potentially beneficial the transactions of various goods are, due to the uncertainty, it is not easy to realize fully the opportunities for transactions. Monetary transaction and periodical fairs are considered to be important social devices to reduce the information cost needed to discover the proper partners to transact with, but these devices are not complete. Although monetary transaction increases the chances, spatially as well as temporally, to discover transaction opportunities it would hardly be expected to bring about the smooth process to form one equilibrium price of the same commodity because of the dispersion of transactions. The most immediate method to bring about the ultimate equilibrium price is opening the concentrated market at a place, but it would involve heavy costs for transporting goods.

The limitation of these method would be removed by the conducts of merchants who professionally realize the opportunities for exchange with the ability of information-processing and transfering goods efficiently. Moreover, merchants by their ability to give credit make enable the transactions which would not be realized by the lack of confidence or money.

The equilibrium price is efficiently groped for through the competitive process among the middlemen who strugle to get more magin.

Thus, most transactions would not be realized smoothly without the conducts of middlemen, and market mechanism would not work unless organized by the merchants.