

Middlemen as Information Intermediaries: Evidence from Used Car Markets*

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Abstract

We theoretically and empirically examine used car dealers' roles as information intermediaries when asymmetric information is present. Our parsimonious theoretical model predicts that dealers' price premium (over private sellers) in dollar terms are hump shaped in car age, and in percentage terms are increasing in car age. It also predicts that dealer cars are more likely to be resold after transaction, due to their higher unobserved quality compared to cars sold by private sellers. We analyze rich datasets of universal used car transactions in two large U.S. states and our empirical findings are consistent with the theoretical predictions.

Keywords: Adverse Selection, Car Dealer, Information Intermediary, Used Car

JEL Classification Codes: D82, D83, L15, L62

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