

Abstract

This study investigates the unmediated used car market, examining factors influencing individual seller's hidden behavior which determines vehicle quality in the absence of dealerships as intermediaries. This paper explores the sale of lemons in unmediated transactions and whether unobservable lemon sales are influenced by regional factors along with cost-benefit considerations. While unmediated transactions involve varying degrees of screening and signaling, full information disclosure remains uncertain. Concealing a lemon as a high-quality vehicle is costly but still happens, with these vehicles frequently sold directly without intermediaries. I document evidence of an aggregated quality premium and price premium in unmediated transactions in specific areas with higher opportunity costs of hidden action, highlighting the role of geographic factors. This research underscores the driving forces behind information opacity in the unmediated used car market, offering valuable information for buyers, sellers, and other market participants.

Keywords: Asymmetric Information, Hidden Action, Unmediated Transaction, Used Car