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<p>Tiivistelmä-Referat-Abstract</p> <p>Markets are the necessary prerequisite for human development. The freehold of a property and the freedom of exchange are the bedrocks of individual and societal well-being. However, economic research has proved that the markets do not efficiently allocate goods under asymmetric information. The affluence through free markets is dependent on others whose behavior we do not know or even fully understand. Conventionally, attempts to solve the problems of imperfect information have relied on jurisdiction and establishment of hierarchical organizations.</p> <p>The rise of the Internet has lately revolutionized the customs of social and economic exchange. Electronic marketplaces span the boundaries of cultural and juristically inconsistent territories, as a result, the prevailing contract monitoring turns out to be inadequate. Should the virtual exchange obey existing laws, the transaction costs may top the benefits of trade, and thus prevent otherwise mutually valuable transactions. In this study, we examine conditions for the endogenously emerging markets based on trust and reputation. The analysis is focused on the effects of different forms of feedback information in markets that suffer from moral hazard due to sequential trading. The study presents data-oriented evidence on why and when people trust each other in economic transactions. Electronic markets, particularly electronic auctions, are presented as the primary application context for the feedback system based on trust and reputations.</p> <p>The experimental data for the research were collected in a laboratory experiment taking advantage of newly designed and implemented computer application. The participants in experimental sessions were all students at the University of Helsinki.</p> <p>The contribution of the thesis is threefold. Firstly, we develop further the idea of tailored trustworthiness aggregates. Secondly, we introduce a novel extensive form game to model trust decisions with endogenous payoff formation. This game design unites the ordinary Trust Game with auctions. Thirdly, based on the unique data from the experiment, we tackle the motivation behind the individual's trust decision.</p> <p>The experimental results in this study demonstrate that, in an economic exchange, the economic agent behaves simultaneously both fairly and selfishly. Furthermore, the expression of mixed motives appears to be sensitive to the variations in the flow of information. The data collected for this study clearly indicate that the augmentation of information improves the economic efficiency of endogenously organized marketplaces. Market efficiency does not require a large number of participants, complete information or full economic understanding, but incentives to trust each other.</p>		
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