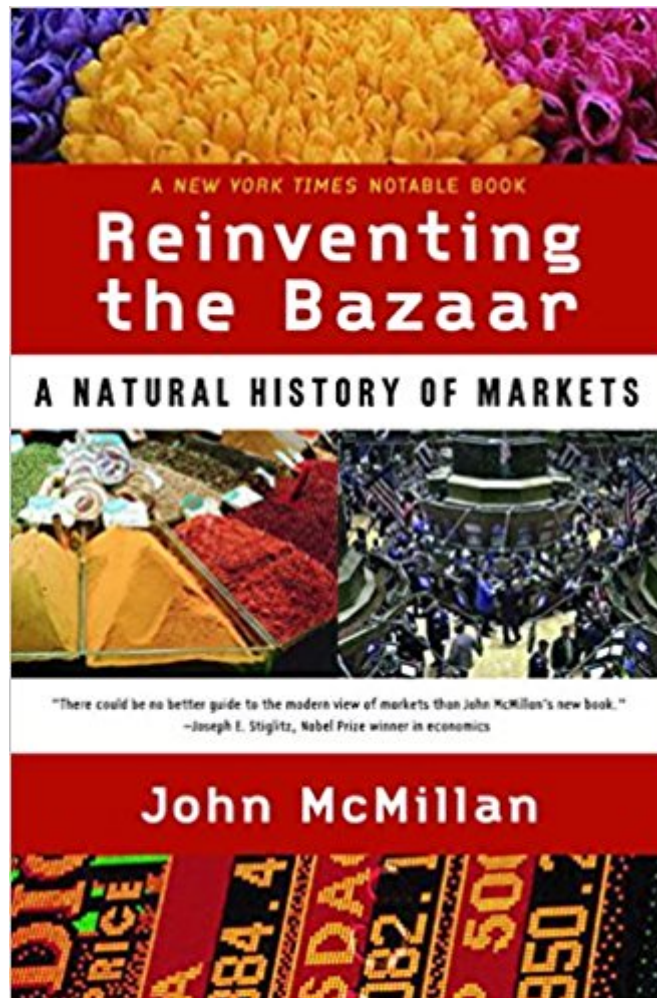




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# Reinventing The Bazaar: A Natural History Of Markets



## Synopsis

Clear, insightful, and nondogmatic, this book gives us a new appreciation for one of our most ubiquitous institutions. From the wild swings of the stock market to the online auctions of eBay to the unexpected twists of the world's post-Communist economies, markets have suddenly become quite visible. We now have occasion to ask, "What makes these institutions work? How important are they? How can we improve them?" Taking us on a lively tour of a world we once took for granted, John McMillan offers examples ranging from a camel trading fair in India to the \$20 million per day Aalsmeer flower market in the Netherlands to the global trade in AIDS drugs. Eschewing ideology, he shows us that markets are neither magical nor immoral. Rather, they are powerful if imperfect tools, the best we've found for improving our living standards. A New York Times Notable Book.

## Book Information

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## Customer Reviews

John McMillan's *Reinventing the Bazaar* is an extremely accessible description of markets large and small, as well as an explanation of their underlying mechanisms. An "absolutely free market," he says, is a "free-for-all brawl," while a "real market" is an "ordered brawl." Sprinkling his analysis with hundreds of anecdotes and examples--prison camps, eBay, the American experiment with alcohol prohibition, the Tokyo fish market, and traditional Ghanaian bazaars--and pertinent quotes from the likes of Chekhov, Twain, and Steinbeck, McMillan animates his subject. Why do banks build showcase headquarters? Which "frictions" brake, and which spur, various markets? Is the "invisible hand" attached to a clothed arm? Why are both pro- and antimarket absolutists, in McMillan's view, the economics equivalent of "flat-earthers"? Is there such an animal as a "perfect" market?

Reinventing the Bazaar answers these questions, and many more, in an eminently wise, entertaining, and instructive way. --H. O'Billovich

An economics professor at the Stanford University Graduate School of Business, McMillan views this historical moment as a unique living laboratory for observing how technology, globalization and changing expectations of buyers and sellers have brought changes to everything from the international flower market based in the Netherlands to national economies. The sheer number of ingenious schemes that have surfaced over the last decade has had an intoxicating effect on McMillan; he skips from the 1994 FCC auction of the electromagnetic spectrum for pagers to the hugely popular Internet auction sites and the effects of intellectual property rights on innovation in this anecdotally rich survey of world markets and new trading opportunities. McMillan looks at a wide variety of industries including interstate trucking and fishery management and lays out the elements he regards as necessary for a smoothly operating market. An illuminating chapter comparing the deregulation and privatization experiences of New Zealand, Russia and China will leave readers wishing that McMillan had concentrated on just a few examples to establish in-depth his primary points: that good design of a market is crucial to its success, that a market develops over time by trial and error, and that government plays an indispensable role in providing public goods and acting as rule setter and referee in the best of all market-based worlds. As it is, the book feels scattered, and McMillan's tone is by turns condescending and frustratingly abstruse. Many readers will be disappointed. Copyright 2002 Cahners Business Information, Inc.

Below are key excerpts from the book that I found particularly insightful:1- "A definition of a market transaction, then, is an exchange that is voluntary: each party can veto it, and (subject to the rules of the marketplace) each freely agrees to the terms. A market is a forum for carrying out such exchange."2- "Markets are too important to be left to the ideologues. In fact, markets are the most effective means we have of improving people's well-being. For poor countries they offer the most reliable path away from poverty. For affluent countries they are part of what is needed to sustain their living standards."3- "The key feature of markets of all kinds is brought home when we look at the growth of new market mechanisms. Benefiting both buyer and seller, any transaction creates value. Buying and selling is therefore a form of creation. Elementary at this point is, its importance cannot be overstated. There are gains from trade, and people are relentless in finding ways to realize them."4- "Two kinds of market frictions arise from the uneven supply of information. There are search costs: the time, effort, and money spent learning what is available where for how much.

And there are evaluation costs, arising from the difficulties buyers have in assessing quality. A successful market has mechanisms that hold down the costs of transacting that come from the dispersion of information."5- "Well-designed markets have a variety of mechanisms, formal and informal, to ensure there is indeed money in being honest. marketplace confidence rests on rules and customs that give even unscrupulous people reason to keep their word...Contracting rests not only on the courts but also on informal devices based on reputation. Information must flow in reputational incentives are to work."6- "Some externalities can be corrected by defining and enforcing property rights. In other cases the harmful activity can be taxed. In extreme cases the only solution is to ban it."7- "A workable platform for markets has five elements: information flows smoothly; people can be trusted to live up to their promises; competition is fostered; property rights are protected but not overprotected; and side effects on third parties are curtailed."8- "Governments sometimes conspire to undermine markets. Corruption cuts into productivity because firms that fear they will be at the mercy of bribe-takers are reluctant to invest. Price-fixing also cuts into productivity by preventing the price system from doing its job of allocating resources. Constructive government actions are needed...to help the market system work as it is supposed to. But there is a risk that government intervention will be perverted in counterproductive directions."9- "Well-functioning markets rely on a judicious mix of formal and informal controls. While the government helps to set the rules for the market, so do that market participants. an economy cannot be designed from above. If it were possible to plan the reforms, it would have been possible to plan the economy."10- "Those on the far left of the political spectrum, who abhor poverty, espouse policies that would entrench it. The fervent proponents of laissez-faire, who esteem market, advocate a system that would trigger their collapse."11- "The market system is like democracy. It is the worst form of economy, except for all the others that have been tried from time to time. It succeeds because, precisely as in Forster's view of democracy, it admits variety and permits criticism. We should cheer it because it solves some all-but-intractable problems, which have been tackled by none of the alternative forms of economic organization. It generates wealth. It alleviates poverty. But it has its limits. There are things it cannot do. It does not necessarily do even what it is supposed to; it works well only if it is well designed. Two cheers are enough."

The book discusses main stream economy in a way accessible for most. This is well written and entertaining. Discusses many interesting examples. For me the cases of China and Russia were the most interesting:1. Markets can work even if the economy is working in a pretty unorthodox ad hoc way. China did not have property laws or private companies but the market reform started in the

villages bottom-up. Top-down reforms came later.2. Markets do not automatically lead to good efficiency. Russia trying the top-down orthodox way proposed by the foreign experts totally unsucceeded. Markets must develop bottom-up in an evolutionary way like Hayek proposed - but also top-down using market design. The role of the first one is probably more important at least in the beginning.

Professor McMillan has written an eminently readable book on the markets. He uses short sentences, rarely makes use of technical jargon and has thrown in numerous real world examples. As a reader, you will be surprised with the sheer depth of material that he covers. It is a real pity that he passed away in March, 2007. Perhaps, if he were alive today and were inclined to update this book, he might have added a chapter on Google and its search/ads market place; maybe, even commented on the recent brouhaha surrounding "Cap and Trade" systems (which have been installed to reduce carbon emissions but in turn might reduce growth!); and most important to me, he might have thrown in an analysis of the role of speculators in oil markets. But all of this is mere speculation on my part because Professor McMillan is no longer with us. He spends the first half of the book exclusively on the five aspects that are needed for designing a market. They are: 1. Information must flow smoothly. 2. Competition must be fostered. 3. People who form the market must be honest and stand up to their end of the bargain. 4. Property rights must be protected but not overprotected. 5. Side effects on third parties must be reduced. I've decided to commit these principles to memory as I design my market simulator.

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