

Merchant exchange and trust

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Indeed, there is very often a difference in information, a lapse of time or a geographical distance which can give the opportunity for one of the parties to profit from the exchange at the expense of the other. The disposition to do business with others is conditioned by the belief that others will honour their contracts.

Market relations cannot be fully regulated by formal clauses, a large number of rules are unwritten and not verifiable by a third party. It is indeed generally impossible to stipulate in a contract all the contingencies likely to affect an exchange. In addition, writing a formal contract for each transaction would be prohibitively expensive. [...]

The strategies implemented to institute relations of confidence seem to have contributed to the expansion of trade and markets in Mediterranean Europe, from the eleventh to twelfth centuries. Regulations came at a time when the institutions framing the property rights and that could limit opportunistic behaviour were largely lacking. "

Yann Algan, Pierre Cahuc, *The Defiance Society. How the French social model is self-destructing*, Paris, Editions ENS Rue d'Ulm, 2007.

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