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Market Distortions When Agents Are Better Informed: The Value of Information in Real Estate Transactions

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Abstract

Agents are often better informed than the clients who hire them and may exploit this informational advantage. Real estate agents have an incentive to convince clients to sell their houses too cheaply and too quickly. We test these predictions by comparing home sales in which real estate agents are hired to when an agent sells his own home. Consistent with the theory, we find homes owned by real estate agents sell for 3.7% more than other houses and stay on the market 9.5 days longer, controlling for observables. Greater information asymmetry leads to larger distortions.

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