

Do mandatory disclosures squeeze the lemons?

The case of housing markets in India*

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Abstract

In developing countries, insecure property rights lead to litigation against housing projects. Potential home-buyers lack accurate information about projects. Information asymmetry between developers and buyers about litigation status results in overpricing of litigated houses (lemons). We find that a new reform in India mandating developers to make litigation details about housing projects public led to a decline in prices of lemons. This decline was only in the non-luxury housing sub-market, and the highest decline was for the lowest income quartile. We provide support for disclosure laws in developing countries to reduce market inefficiencies and unequal access to information.

Keywords: Housing, property rights, information asymmetry, mandatory disclosure laws, India

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