Studia Iuridica 95
ISSN 0137-4346; e-ISSN 2544-3135

DOI: https://doi.org/10.31338/2544-3135.si.2022-95.15

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MARKET REGULATION: ARE THERE ANY REASONS TO TREAT SHARING ECONOMY EXCEPTIONALLY?

Abstract

In this paper we posed a question about the role of the state with regard to imposing regulations on the sharing economy sectors. Analysis of the institutional frames of the regulatory intervention of the state in the sharing economy still constitutes an underexploited niche. We drew on the literature in institutional economics and other related fields to provide a picture of a reasonable regulation of markets introduced by a state. The paper covers the spheres of information asymmetry, imperfect competition, negative externalities, and the supply of public goods. What may be generally concluded is that there are no sufficient arguments for treating sharing economy entities more favorably as compared to other organizations. As regards the imperfect competition and negative externalities, sharing economy entities may play a key role and should not be excused from respecting general legal rules. Otherwise, some market actors would use the sharing economy cover just to take advantage of the exemptions. The sharing economy may be also an attractive channel of activity from the perspective of policymakers for mixing direct governmental support with other (social) sources for public goods.

KEYWORDS

sharing economy, institutional economics, public policy, regulatory challenges

SŁOWA KLUCZOWE

ekonomia współdzielenia, ekonomia instytucjonalna, polityka publiczna, wyzwania regulacyjne

1. INTRODUCTION

How the state shall interact with new markets? What should be the design of regulations imposed on them? The legislator faces a continuous necessity of developing legal regulations dedicated for new or evolving markets[1]. Even if some particular markets require a special attention due to their complexity, *inter alia*, the financial sector, the legal environment usually evolves gradually over time[2]. Some of the market spheres, like the sharing economy, have been developing outstandingly fast in recent years[3].

The sharing economy has gained its market and social importance in the recent past[4]. Sharing economy platforms offer means for sharing products, services, and other various forms of assets[5]. Apart from the crucial role of enabling or fostering the exchange, the sharing economy is important from the perspective of social ties and consumer's mood tendencies[6]. However, some aspects of the sharing economy remain vague. Starting from the issue of the definition of the

[1] J. Baker, K. Storbacka, R. Brodie, *Markets changing, changing markets: Institutional work as market shaping*, "Marketing Theory" 2018, Vol. 19, No. 3, pp. 301–328; S. Schwarcz, *Changing law to address changing markets: A consequence-based inquiry*, "Law and Contemporary Problems" 2017, Vol. 80, pp. 163–191.

[2] A. Kern, *Reforming European financial supervision: Adapting EU institutions to market structures*, "ERA Forum" 2011, Vol. 12, No. 2, pp. 229–252.

[3] R. Parente, J.-M. Geleilate, K. Rong, *The sharing economy globalization phenomenon: A research agenda*, "Journal of International Management" 2018, Vol. 24, No. 1, pp. 52–64.

[4] P. Gazzola, E.-M. Vâtâmânescu, A. Andrei, Ch. Marrapodi, *Users' motivations to participate in the sharing economy: Moving from profits toward sustainable development*, "Corporate Social Responsibility and Environmental Management" 2019, Vol. 26, No. 4, pp. 741–751.

[5] Ch. Narasimhan *et al.*, *Sharing economy: Review of current research and future directions*, "Customer Needs and Solutions" 2018, Vol. 5, pp. 93–106.

[6] P. Gazzola, E.-M. Vâtâmânescu, A. Andrei, Ch. Marrapodi, *op. cit.*, pp. 741–751.

sharing economy – there is no universal and widely accepted one[7]. The sharing economy is often described in the context of business models or social changes[8]. Importantly, the issue of market failures from the perspective of the sharing economy remains a research niche. This paper aims at exploring the characteristics of failures in this sphere.

The paper provides an insight into the theoretical dimension of the application of law & economics and institutional economics to the analysis of market problems, like imposing regulations on relatively new market spheres. The key objective of the article is to provide a systematical analysis of the motives for imposing new key regulations on the sharing economy organizations which began to develop dynamically in recent years. The research objective is met with the analysis of literature and the theoretical inquiry. Namely, both milestones in institutional economics or economics of regulations, as well as actual studies, are recalled. Then, conclusions from these studies are appropriately adapted to the considerations regarding the regulation of the sharing economy, thereby accounting for the specificity of this market sphere. By our research we aim to contribute to the broad current discussion over market regulations.

The paper contains 6 sections. In Section 2 we provide background information on the role of the state from an economic perspective. Section 3 reviews the relevant literature – both theoretical and empirical – on the economics of regulation. Section 4 is devoted to the sphere of sharing economy. Based on the reviewed literature, in Section 5 we present our thoughts about the aims and threats of regulating sharing economy sectors. The last section offers conclusions.

2. ROLE OF THE STATE IN MARKET REGULATION

Since the focus of this article is the design of regulations regarding the sharing economy, this section is devoted to the role of state in a legislative process. This is the starting point of the argument offered in this paper, as it exposes the general context of developing regulations. Thus, the goal of this section is to provide remarks on the actors imposing new laws that, in turn, provide rules for the market. The state is very often taken in economic literature as an abstractive subject.

[7] T. Puschmann, R. Alt, *Sharing economy*, “Business & Information Systems Engineering” 2016, Vol. 58, No. 1, pp. 93–99; M. Cheng, *Sharing economy: A review and agenda for future research*, “International Journal of Hospitality Management” 2016, Vol. 57, pp. 60–70.

[8] M. Ritte, H. Schanz, *The sharing economy: A comprehensive business model framework*, “Journal of Cleaner Production” 2019, Vol. 213, pp. 320–331; P. Muñoz, B. Cohen, *A compass for navigating sharing economy business models*, “California Management Review” 2018, Vol. 61, No. 1, pp. 114–147; D. Trabucchi, L. Muzellec, S. Ronteau, *Sharing economy: Seeing through the fog*, “Internet Research” 2019, Vol. 29, No. 5, pp. 996–1013.

Mechanisms of executing regulations, in turn, are assumed *per se*. Thanks to the delegation of competences done by society, the state is legitimate to impose and execute regulations. It is sometimes stated that the implemented law is optimal and just. However, such an approach is inadequate. It seems to become commonly understood that the state (government) is involved in a game of interests and some of the regulations imposed may have nothing to do with raising social welfare or fulfilling social goals. Hopefully, there are some boundaries on the activity of the state that shape the decisions regarding the law.

The competence of rulers to impose new laws comes from the underpinnings of states. The state possesses the exclusive right to apply coercion in order to achieve a desired condition of social order. In such a context, the state may be treated as a special sort of organization that interacts with markets by using formal institutions. By analogy to the idea of effectiveness of markets, popular within neoclassical economics, states are often assumed to be effective. In fact, a fraction of regulations imposed by the state is introduced not because of social welfare, but in order to satisfy the interests of particular rent-seeking groups[9]. Too intensive intervention of states into markets may lead to the development of coordinated groups of pressure (rent-seeking groups), whose aim is to achieve economic goals, *inter alia*, by influencing governments. As Buchanan and Tullock claim, the organized rent-seeking groups minimize the transaction costs of political decisions that are derived from rules imposed by public power[10]. The organized pressure groups have an advantage over the rest of society in the field of access to relevant information and the capability to run negotiations[11].

Available studies show that legislative power is some kind of a prisoner of a regulated society and voters (regulatory capture)[12]. Political cycles are associated with government elections, so they affect public promises and legal regulations. The empirical interrelationship between the pace of economic development and political dynamics was confirmed in the literature[13]. For instance, one of the most popular models of political cycles by Nordhaus[14] assumes the usage of political power in order to gain voters' sympathy and regards politicians and voters as undetermined. According to the rent-seeking theory, sources of rents act

[9] D.C. North, *Institutions, institutional change and economic performance*, Cambridge 1990.

[10] J.M. Buchanan, G. Tullock, *The calculus of consent: Logical foundations of constitutional democracy*, Ann Arbor 1962.

[11] M. Kalinowski, *Ekonomiczne podstawy lobbingu w świetle teorii public choice*, "Gospodarka Narodowa" 2005, Vol. 7–8, pp. 29–44.

[12] A. Lipowski, *Ekonomiczna zawodność państwa – krytyczna analiza ujęcia antyetatystycznego*, "Ekonomista" 2002, Vol. 2, pp. 165–193.

[13] E. Tufte, *Political control of the economy*, Princeton 1978.

[14] W.D. Nordhaus, *The political business cycle*, "The Review of Economic Studies" 1975, Vol. 42, No. 2, pp. 169–190.

as restraints for the free market and are introduced to life by states[15]. The more spheres are regulated strictly by a state and the more market influence they have, the more pressure is faced by public power representatives[16]. As an effect of the pressure of rent-seeking groups, transfer of goods or rights occurs, but is supervised by the state representatives, who may be inclined to fulfill the expectations of agents from the rent-seeking groups. A political cycle exists when a state begins to run new and different than previously economic policies after the government changes made due to the elections. Obviously, in some circumstances it may harm social welfare. Both the market and the state itself become a playground for the rent-seeking activities, and political freedom is a sphere of competition for the division of rents between the involved agents[17].

Moving to the market issues, very interesting effects occur within an institutional dichotomy – the state organizes markets through regulations, but markets defend themselves against the state also thanks to institutions (coercion-constraining institutions). The aim of introducing regulations shall be supporting the organizations or markets, not replacing them. Considering the fact that state failures and market failures are interrelated and it is almost impossible to eliminate those failures completely, markets and states should be treated as encompassing mechanisms that coordinate decisions of the individuals[18].

States may face a failure in recognizing market needs and expectations. The knowledge of state representatives is limited. Naturally, it is due to the complexity of markets and dynamic changes over time. Moreover, the state does not have a limitless impact on markets. As a result, governors do not possess the knowledge necessary to coordinate all the markets appropriately[19]. If there is no person able to get the relevant knowledge about "the time and the place", a mechanism of making decisions, not related to individual verdicts, is required to coordinate individual actions[20]. Dispersion of information also may be problematic.

A point could be made that if we require and expect effective market regulations, we should also bear in mind that someone has to design them, introduce, and then execute. Usually, we may expect the state to do so, also in the context of the sharing economy. The state, in turn, is limited in the legislative process – by information asymmetry, various needs of the society that have to be prioritized, external factors, as well as the pressure of the rent-seeking groups. So what is

[15] A.O. Krueger, *The political economy of the rent-seeking society*, "The American Economic Review" 1974, Vol. 64, No. 3, pp. 291–303.

[16] G. Tullock, *The welfare costs of tariffs, monopolies and theft*, "Western Economic Journal" 1967, Vol. 5, No. 3, pp. 224–232.

[17] M. Olson, *Dictatorship, democracy and development*, "American Political Science Review" 1993, Vol. 87, No. 3, pp. 567–576.

[18] B. Fiedor, *Błędy rynku a błędy państwa – regulacja rynkowa versus regulacja publiczna*, "Ekonomista" 2013, Vol. 2, pp. 183–200.

[19] F.A. Hayek, *Konstytucja wolności*, Warszawa 2013.

[20] *Ibidem.*

remarkable, is that proficient states are desirable in the context of regulatory challenges. On the other hand, state failures are, to a large extent, inevitable. However, institutional constraints imposed over political agents may force them to fulfill their commitments.

3. JUSTIFICATION FOR MARKET REGULATIONS

Following the logic of the previous section on the actors playing the essential role in legislative process, this section deals with the issue of the necessity of imposing new laws on markets. The arguments discussed in this part of the article are relevant in the following section devoted to the regulatory aspects of the sharing economy. Markets may be treated as a mechanism of coordination of assets and optimization of their usage *per se*[21]. Actors present on markets make decisions based upon production factors, market supply and demand with reference to prices of commodities or services, as well as on their own specific utility functions. In fact, market equilibrium is achievable only on fully perfect markets (non-existent in reality), characterized by perfect competition, where homogeneity of products, free market entrance or exit, symmetry of information and no impact of an individual agent of the level of prices occur[22]. The functioning of perfect markets depends mainly on pricing mechanisms[23], while imperfect markets require regulatory interventions in order to obtain higher levels of economic (market) effectiveness, what is crucial from the perspective of social welfare. Markets without regulations do not reach equilibria, if they face information asymmetry or when they are incomplete. In fact, those two circumstances are typical for every market[24]. Another point is that in some conditions, regulatory interventions may foster economic growth[25].

Some kinds of market imperfection are negligible, but others seem to be crucial. Market failures are present on almost every market and they tend to differ across states and sectors. A great challenge is to manage the issue of economic (market) efficiency and to keep some sort of justice of allocation of assets, by using legal regulations[26]. The logic of regulatory intervention of a state is as follows: if

[21] A.B. Atkinson, J.E. Stiglitz, *Lectures on public economics*, London, New York 1980.

[22] B. Fiedor, *Błędy...*, pp. 183–200.

[23] J. Robinson, *What is perfect competition?*, "The Quarterly Journal of Economics" 1934, Vol. 49, No. 1, pp. 104–120.

[24] J.E. Stiglitz, *Globalizacja*, Warszawa 2004.

[25] K. Jamal, M. Maier, S. Sunder, *Regulation and the marketplace*, "Regulation Magazine" 2004, Vol. 26, No. 4, pp. 38–41.

[26] J.E. Stiglitz, *The invisible hand and modern welfare economics*, (in:) D. Vines, A. Stevenson (eds.), *Information, strategy, and public policy*, Oxford 1991.

markets are not able to reach the equilibrium by themselves and do not converge towards effectiveness, a reasonable regulatory policy may correct this condition[27]. In a broad approach to this sphere, regulations mean all forms of influence on the market made by the state. A narrow perspective, in turn, stands for developing formal institutions that affect markets[28]. Regulations are recognized also as tools used by the state in order to optimize and coordinate its responsibilities. All in all, it may be summarized that regulations serve as a system or structure of incentives imposed, *inter alia*, on market agents. If regulations are valid and executed, they shall affect the decisions of those agents, *inter alia*, enterprises or consumers[29].

A very crucial point is not only about the design of institutions, but also about the way they are implemented. Because of several geopolitical factors, the exact pattern of the implementation of new laws is tough to predict. Discrepancies may be linked also with the pace of reforms – shock or sequential[30]. The sequential implementation of regulations has an advantage of gradual social adjustments to formal rules. However, it may also lead to rent-seeking activity. Shock reforms, in turn, bring fast and sometimes radical changes, but leave less space for adaptation (see e.g. the effects of political transformation in Poland and other post-socialist countries[31]). Attitudes towards market regulation may be driven by the effectiveness of institutions, which usually assume maximization of the difference between the social benefits and social costs of the implementation of new laws. Some institutions, both formal and informal, can be used as tools for reducing market failures, but not always, especially when they are driven by the expectations of rent-seeking groups[32]. In this case, the most important issue is the selection of an adequate measure (approach) of institutional effectiveness.

Adherents of the most recognizable approaches in economics agree that market failures are present on almost all markets. By market failures we usually understand some setbacks in allocation of assets and motivation of market agents[33].

[27] R. Baldwin, M. Cave, *Understanding regulation: Theory, strategy and practice*, Oxford 1999.

[28] T. Kahn, *The economics of regulation: Principles and institutions*, Cambridge 1991.

[29] W.K. Viscusi, J.M. Vernon, J.E. Harrington, *Economics of regulation and antitrust*, Cambridge 2005.

[30] S.M. Nsouli, M. Rached, N. Funke, *The speed of adjustment and the sequencing of economic reforms: Issues and guidelines for policymakers*, "International Journal of Social Economics" 2005, Vol. 32, No. 9, pp. 740–766.

[31] G. Kołodko, *A two-thirds of success: Poland's postcommunist transformation 1989–2009*, "Communist and Post-Communist Studies" 2009, Vol. 42, No. 3, pp. 325–351.

[32] J.C. Botero, S. Djankov, R. La Porta, F. Lopez-de-Silanses, A. Shleifer, *The regulation of labor*, "The Quarterly Journal of Economics" 2004, Vol. 119, No. 4, pp. 1339–1382.

[33] P. Schmidt, *Market failure vs. system failure as a rationale for economic policy?: A critique from an evolutionary perspective*, "Journal of Evolutionary Economics" 2018, Vol. 28, pp. 785–803; T. Cherry, S. Kallbekken, S. Kroll, *Accepting market failure: Cultural worldviews and the opposition to corrective environmental policies*, "Journal of Environmental Economics and Management" 2017, Vol. 85(C), pp. 193–204.

Market failures evolve because of the incompleteness of markets, information asymmetry, imperfect competition, externalities, public goods, and redistribution of income. One of the solutions of market failures is market regulation. Considering market failures in separation from regulatory issues and opposing those two terms is called a nirvana fallacy[34]. The stability and effectiveness of markets should be guaranteed by regulations imposed by states, secured by a legitimate monopoly of states to enforce the execution of the regulations[35].

Moreover, a lack of institutional (regulatory) stability and transparency may lead to a widespread market uncertainty, inhibiting investments and development in general[36]. Two crucial spheres, in this context, are enforceable contracts (contract-enforcement institutions) and valid property rights[37]. Apart from legal regulations, informal institutions, like culture, tradition or social customs, may also shape decisions and the allocation of resources[38].

4. SHARING ECONOMY

As it is stated in the literature, it is almost impossible to propose some universal and solid definition of the sharing economy[39]. One of the definitions of the sharing economy says that it means collaborative consumption made by the activities of sharing, exchanging, and rental of resources without owning the goods[40]. There are various drivers of the evolution of the sharing economy[41]. The sharing economy, as built on using and sharing of resources, products and services between others, is developing with changing consumer behavior, social networks and electronic markets, as well as mobile devices and electronic services[42]. Taking into consideration that the sharing economy tools are, to a great extent, available online[43], the progress

[34] H. Demsetz, *Information and efficiency: Another viewpoint*, (in:) T. Cowen, E. Cramption (eds.), *Market failure or success: The new debate*, Cheltenham-Northhampton 2002.

[35] R.G. Holcombe, *The economic foundations of government*, New York 1994.

[36] B. Fiedor, *Neoklasyczna teoria instytucji*, (in:) B. Fiedor (ed.), *Kierunki rozwoju współczesnej ekonomii*, Wrocław 1991.

[37] D.C. North, *Structure and change in economic history*, New York, London 1981.

[38] S. Voigt, *How (not) to measure institutions*, "Journal of Institutional Economics" 2013, Vol. 9, No. 1, pp. 1–26.

[39] J. Schor, *Debating the sharing economy*, "Journal of Self-Governance and Management Economics" 2016, Vol. 4, No. 3, pp. 7–22.

[40] L. Lessing, *Remix: Making art and commerce thrive in the hybrid economy*, New York 2008.

[41] T. Puschmann, R. Alt, *op. cit.*, pp. 93–99.

[42] *Ibidem.*

[43] J. Hamari, M. Sjoklint, A. Ukkonen, *The sharing economy: Why people participate in collaborative consumption*, "Journal of the Association for Information Science and Technology" 2016, Vol. 67, No. 9, pp. 2047–2059.

in smartphones, tablets, computers or other appliances and the Internet, boosts people's interest in mobile applications, covering also the sharing economy ones. The sharing economy ranges from rental activities (Airbnb), to for-profit service provision (Uber), to gifting (Freecycle)[44]. The sharing economy is described as a mean of a relatively sustainable form of consumption, based on individuals rather accessing than owning resources, a way towards a decentralised and equitable economy, and a playground for innovation and unregulated marketplaces[45]. In this context, the sharing economy promotes relatively equitable and sustainable distribution of resources, which are linked with reducing the costs of accessing products or services, as well as lowering consumer demand for resources[46].

Since a precise definition of the sharing economy is a hardship, the whole term becomes more clear by encompassing the ways the term is applied in practice[47]. Some scholars use the term "sharing economy" to express the growing phenomenon of citizens sharing skills or knowledge in collaborative online tools[48]. The collaborative consumption is described as "the peer-to-peer based activity of obtaining, giving, or sharing the access to goods and services, coordinated through community-based online services"[49]. The term sharing economy covers a number of various activities and organisations. The sharing economy may be classified into broad categories like the recirculation of goods, increased utilization of durable assets, exchange of services, and the sharing of productive assets[50].

The recirculation of goods is done, *inter alia*, by firms like eBay or Craigslist, which serve as marketplaces, and were initiated in the 1990s. What changes with respect to our times is the technology, reduced transaction costs or the relevance of reputational information. The utilization of durable assets is fulfilled by the platforms – *inter alia* Zipcar, Zimride, Uber, Lyft or Airbnb. This category of sharing economy may be up to hourly rentals of cars, bicycles, ride services or lodgings[51]. In the low-income communities, ideas of non-monetized initiatives have evolved primarily. Those were for instance toll libraries and other ideas linked with the components of neighbourhood building (Share Some Sugar, Neighborgoods). The key advantage of such initiatives is cheap access to goods or space and sometimes to earning extra money. Service exchange, in turn, evolved from time banking offering opportunities for the unemployed. Time banks are a sort of nonprofit and multilateral barter sites, where services are traded upon the time needed. The rea-

[44] Ch.J. Martin, *The sharing economy: A pathway to sustainability or a nightmarish form of neoliberal capitalism?*, "Ecological Economics" 2016, Vol. 121, pp. 149–159.

[45] *Ibidem.*

[46] *Ibidem*; R. Botsman, R. Rogers, *What's mine is yours: How collaborative consumption is changing the way we live*, London 2010.

[47] J. Schor, *op. cit.*, pp. 7–22.

[48] Ch.J. Martin, *op. cit.*, pp. 149–159.

[49] J. Hamari, M. Sjoklint, A. Ukkonen, *op. cit.*, pp. 2047–2059.

[50] J. Schor, *op. cit.*, pp. 7–22.

[51] *Ibidem.*

son why time banking did not become globally popular was the idea of equal remuneration of each user. However, platforms as Task Rabbit offer a similar idea of paid exercises. The last category, the sharing of productive assets, is rather aimed at sharing assets or space to boost production rather than consumption. It covers communal offices, educational projects, co-working spaces or makerspaces.

Sharing economy platforms are designed to facilitate exchange. However, the attitude towards profits affects the way sharing and the division of revenue take place. The for-profit platforms attract investments, *inter alia*, from venture capital firms, what boosts their dynamics and expansion[52]. The non-profit sharing economy platforms, in turn, may be aimed at some social goals. They may be operating in order to deliver public benefits (see tool library). However, the platforms may be also somehow ruthless and harmful to the competition. Some of the sharing economy platforms are involved in an anti-competitive behavior. Usually, the difference between peer to peer and business to peer depends also on the perspective of making rents. Peer to peer platforms tend to earn money by commissions on transaction (exchange), so they are dependent strongly on the volume of transactions. Business to peer firms, on the contrary, are rather interested in maximizing revenue *per transaction*, what is typical for traditional business as well[53].

Another key question may be who participates in the sharing economy. Again, it depends on the perspective and social group. Sharing economy platforms may be attractive due to their novelty or trendiness[54]. The second point is rather about economic or social factors pushing towards using the means of sharing economy. Sharing economy platforms may be associated with relative lower costs or offer more means of exchange, also in spheres where traditional agencies are not active. Those platforms may also enable some people to make money in ways that were unavailable before. What is more, sharing economy can be attractive because of environmental motives (sharing cars and reducing carbon footprints) or tying social connections. On the other hand, apart from simple geographical or political reasons, sharing economy platforms may discourage some people because of a relatively high technological advancement.

The sharing economy may be profitable because of saving money or the effects of facilitating access to resources. An interesting sphere is the field of relationships between the motivations of the users of the sharing economy and their behavior[55]. Attitudes like the self-determination approach, parallel sharing economies or context specific-adjustments have arisen there[56]. Sharing is a spe-

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[52] *Ibidem.*

[53] *Ibidem.*

[54] *Ibidem.*

[55] J. Bray, N. Johns, D. Kilburn, *An exploratory study into the factors impeding ethical consumption*, "Journal of Business Ethics" 2011, Vol. 98, No. 4, pp. 597–608.

[56] J. Hamari, M. Sjoklint, A. Ukkonen, *op. cit.*, pp. 2047–2059; S. Lindenberg, *Intrinsic motivation in a new light*, "Kyklos" 2001, Vol. 54, No. 2–3, pp. 317–342; O. Nov, M. Naaman, C. Ye,

cific alternative form of distribution with reference to the traditional exchange of commodity or gift giving[57]. It is emphasized that the sharing economy may foster community, save resources, and boost various synergies[58], but on the other hand the aspect of failures that may occur on the sharing economy seems to be neglected.

5. AIMS AND THREATS OF REGULATING THE SHARING ECONOMY

Not much has been done in the sphere of regulations imposed on the sharing economy. Hartl, Hofmann and Kirchler investigated rules and governance in collaborative consumption communities[59]. Ranchordas[60] analyzed descriptively regulating innovation in the sharing economy. Demary[61], for instance, provides basic notions about competition in the sharing economy. Interesting points have been made by Reuch and Schleicher[62] with regard to local governmental policies on the sharing economy. Guttentag[63] explores the emergence of Airbnb and refers to common problems due to its legality (short-term rental regulations and tax concerns) and provides a brief description of regulatory flux, as well as possible solutions to the existing problems. However, this paper deals with just a very few aspects of the Airbnb's activity.

The sharing economy is based on the system of a special type of transactions described in the above-mentioned sections. A classical informational discrepancy regarding the features of a good or a service as the subject of the transaction or

Analysis of participation in an online photosharing community: A multidimensional perspective, "Journal of the American Society for Information Science and Technology" 2010, Vol. 61, No. 3, pp. 555–566; T. Hennig-Thurau, V. Henning, H. Sattler, *Consumer file sharing of motion pictures*, "Journal of Marketing" 2007, Vol. 71, No. 4, pp. 1–18.

[57] R. Belk, *Why not share rather than own*?, "The Annals of the American Academy of Political and Social Science" 2007, Vol. 611, No. 5, pp. 126–140.

[58] *Ibidem*.

[59] B. Hartl, E. Hofmann, E. Kirchler, *Do we need rules for "what's mine is yours"?: Governance in collaborative consumption communities*, "Journal of Business Research" 2016, Vol. 69, No. 8, pp. 2756–2763.

[60] S. Ranchordas, *Does sharing mean caring? Regulating innovation in the sharing economy*, "Tilburg Law School Legal Studies Research Paper" 2015, Series 6.

[61] V. Demary, *Competition in the sharing economy*, "IW Policy Paper" 2014, Vol. 19.

[62] D.E. Reuch, D. Schleicher, *Like Uber, but for local governmental policy: The future of local regulation of the sharing economy*, "George Mason University Law and Economics Research Paper" 2015, Series15–01.

[63] D. Guttentag, *Airbnb: Disruptive innovation and the rise of an informal tourism accommodation sector*, "Current Issues in Tourism" 2015, Vol. 18, No. 12, pp. 1192–1217.

the credibility as well as other characteristics of the buyer or seller, occurs also in the context of the sharing economy[64].

What is crucial, people interested in using sharing economy platforms are usually up to getting high quality services or assets. It is similar to typical market transactions. To avoid the harm that may be caused to the consumers or trade partners, or even the sellers, regulators impose various informational obligations. Due to this solution, parties of transactions to some extent raise the probability of satisfactory exchange[65]. This sphere of regulatory intervention is especially meaningful in the food industry, toy branch or hotel industry. In many states, the sharing economy entities are subject to general law restrictions as civil law or administrative law[66]. However, some areas that are competing with traditional business units, are free from specific regulations. A fine example may be the hotel industry. Hotels have to meet a number of obligations (safety, hygiene, advertising), what is beneficial from the perspective of their clients, but generates costs. The sharing economy platforms in some regions, in turn, are not obliged with those rules, what results in cheaper offers[67]. On the other hand, the risk of unfruitful transactions and clients' loss is raising. Analogous arguments may refer to the profiles of clients or service/good providers.

There are different ways of dealing with this informational asymmetry with respect to the sharing economy. In terms of the for-profit sharing economy platforms, the same regulations as for traditional businesses may be applied[68]. Apart from the characteristics shaping the sharing economy, the part regarding the subject of the exchange and possible harm to the consumer or producer is very similar, since dissatisfaction of the taxi client is comparable to the dissatisfaction of the user of the car sharing platform. Also the harm that may be done for the service provider is alike – just think about the hotel guest avoiding paying for the room and the user of the flat sharing platform that does not want to pay for the service. There are no substantive arguments for treating the sharing economy more severely or leniently than non-sharing entities.

[64] S. Balakrishnan, M.P. Koza, *Information asymmetry, adverse selection and jointventures: Theory and evidence*, "Journal of Economic Behavior & Organization" 1993, Vol. 20, No. 1, pp. 99–117; Ch.Ch. Shen, J.Sh. Chiou, B.Sh. Kuo, *Remedies for information asymmetry in online transaction: An investigation into the impact of web page signals on auction outcome*, "Internet Research" 2011, Vol. 21, No. 2, pp. 154–170.

[65] G. Clarkson, T.E. Jacobsen, A.L. Batcheller., *Information asymmetry and information sharing*, "Government Information Quarterly" 2007, Vol. 24, No. 4, pp. 827–839.

[66] A.R. Vining, D.L. Weimer, *Information asymmetry favoring sellers: A policy framework*, "Policy Sciences" 1988, Vol. 21, pp. 281–303; A. Ogus, *The economic basis of legal culture: Networks and monopolization*, "Oxford Journal of Legal Studies" 2002, Vol. 22, No. 3, pp. 419–434.

[67] S. Miller, *First principles for regulating the sharing economy*, "Harvard Journal on Legislation" 2016, Vol. 53, pp. 147–202.

[68] R. McLaughlin, A. Safieddine, *Regulation and information asymmetry: Evidence from the performance of industrial and utility firms issuing seasoned equity in the USA*, "Journal of Financial Regulation and Compliance" 2008, Vol. 16, No. 1, pp. 59–76.

Another interesting aspect of the sharing economy in the field of informational asymmetry is that the platforms may be willing to reduce the information asymmetry of the exchange, because they compete with the non-sharing businesses[69]. Then, platforms operating the sharing economy exchange require posting credible information, contact details, photographs, a relevant description of the service or good, as well as create grading systems with comments allowed. Thanks to this solution, the users of the sharing economy may easily compare various offers of similar services.

It is highly controversial whether informational requirements should be imposed on the non-for-profit part of the sharing economy platforms[70]. Those entities offer products or services because of reasons other than monetary. Informational obligations would probably reduce the supply of the offers since they generate additional transaction costs. Naturally, consumers may suffer in this case due to unreliable units in the same way as customers of the for-profit platforms. However, the risk that they bear because of the lack of legal regulations stating lower information asymmetry is compensated by the attractive price of the goods and services placed on the non-for-profit units.

Another aspect of the sharing economy is imperfect competition. In fact, perfect competition is an abstract concept, that does not occur in reality. Apart from the key four examples of imperfect competition, i.e. oligopoly, oligopsony, monopsony, and monopolistic competition, a broader look is significant at situations where firms do not sell identical products, form control of prevailing prices and their market shares[71]. Organizations do not have perfect information about the market, or encounter barriers to entry or exit, factors which define the state of the imperfect market.

Sharing economy organizations are not active on perfect markets – their activity occurs on imperfect ones, as in the case of any businesses or just market transactions. A broad range of academic literature point out the negative outcome of a large degree of market imperfectness[72]. As it was mentioned, sharing economy

[69] R.A. Lambert, Ch. Leuz, R.E. Verrecchia, *Information asymmetry, information precision, and the cost of capital*, "Review of Finance" 2012, Vol. 16, No. 1, pp. 1–29.

[70] A. Prakash, M.K. Gugerty, *Trust but verify?: Voluntary regulation programs in the nonprofit sector*, "Regulation & Governance" 2010, Vol. 4, No. 1, pp. 22–47; M.F. Sloan, *The effects of nonprofit accountability ratings on donor behavior*, "Nonprofit and Voluntary Sector Quarterly" 2009, Vol. 38, No. 2, pp. 220–236.

[71] J. Robinson, *Imperfect competition revisited*, "The Economic Journal" 1953, Vol. 63, No. 251, pp. 579–593; R. Harris, *Applied general equilibrium analysis of small open economies with scale economies and imperfect competition*, "The American Economic Review" 1984, Vol. 74, No. 5, pp. 1016–1032.

[72] H. Dixon, N. Rankin, *Imperfect competition and macroeconomics: A survey*, "Oxford Economic Papers" 1994, Vol. 46, No. 2, pp. 171–199; B.L. Chen, Y.Y. Chiang, P. Wang, *Credit market imperfections and longrun macroeconomic consequences*, "Annals of Economics and Finance" 2008, Vol. 9, No. 1, pp. 151–175; B. Cohen, M.I. Winn, *Market imperfections, opportunity and sustainable entrepreneurship*, "Journal of Business Venturing" 2007, Vol. 22, No. 1, pp. 29–49.

platforms may be created as for-profit organizations or non-for-profit ones. One may state that organizations performing as non-for-profit ones lead to a higher degree of social welfare than for-profit ones, due to differences in economic rents of the owners of the platforms in those two cases.

However, the non-for-profit sharing economy platforms that boost market imperfectness in any significant way, may block entry to a particular market in a longer time span. As a result, even if in the short-perspective the market dominated by sharing economy platforms may be somehow beneficial, in the long-run it is not going to be[73]. This context is even more clear for for-profit sharing economy organizations. On markets, they act as traditional businesses, doing their best to control the market as much as they can. Limiting their competition will lead to negative effects from the perspective of the social welfare and slower development of various markets.

Another fair point is that without the sharing economy, some markets would not develop at all or would stay at the current pace of evolution[74]. So the indication for the lawmakers is not to limit the sharing economy organizations, but rather not to favor them compared to other entities. Even if the exemptions designed for the sharing economy are attractive in the short-run, they would not work in the long-run.

The sharing economy may be associated with externalities in the same way as "traditional" businesses[75]. When an organization causes a positive externality, the society (or the state) may take advantage of this. From the perspective of social welfare, positive externalities are favorable. If this does not influence the primary business, but affects the external agents, such a phenomenon may be even promoted by the state. Taking into consideration the social aspect of sharing economy platforms, it may be not such a hardship. On the other hand, negative externalities may be a serious problem.

Negative externalities are essential in the context of sharing economy[76]. Some examples are the prices of real estates with reference to Airbnb, parity on sev-

[73] T. Besley, *Commodity taxation and imperfect competition: A note on the effects of entry*, "Journal of Public Economics" 1989, Vol. 40, No. 3, pp. 359–367; N. Rankin, *Imperfect competition, expectations and the multiple effects of monetary growth*, "The Economic Journal" 1992, Vol. 102, No. 413, pp. 743–753.

[74] A. Acquier, T. Daudigeos, J. Pinkse, *Promises and paradoxes of the sharing economy: An organizing framework*, "Technological Forecasting and Social Change" 2017, Vol. 125, pp. 1–10.

[75] W. Jing, B. Sun, *Negative externalities in the sharing economy: Sources, paths and recommendations*, "International Journal of Crowd Science" 2018, Vol. 2, No. 2, pp. 149–163; M.A. Griffiths, B.Y. Perera, P.A. Albinsson, *Contrived surplus and negative externalities in the sharing economy*, "Journal of Marketing Theory and Practice" 2019, Vol. 27, No. 4, pp. 445–463; D.E. Jaremen, E. Nawrocka, M. Żemła, *Externalities of development of the sharing economy in tourism cities*, "International Journal of Tourism Cities" 2020, Vol. 6, No. 1, pp. 138–157.

[76] D.E. Jaremen, E. Nawrocka, M. Żemła, *op. cit.*, pp. 138–157; W. Jing, B. Sun, *op. cit.*, pp. 149–163.

eral platforms, or safety issues (Uber). As a response, some states issue regulations imposing additional boundaries on the sharing economy businesses (*inter alia* Barcelona on Airbnb). What seems to be obvious, is that in order to avoid the accumulation of negative externalities, the sharing economy cannot be treated exceptionally by the officials and the law comparing to other organizations. This may be crucial, for instance, in car sharing businesses (safety, information requirements, guarantees). All in all, the vast majority of people or organizations participating in the sharing economy are doing this for profit and their activity should not cause direct or indirect harm to the customers and for the rest of society.

But sometimes, tough decisions upon the externalities and further steps have to be made. There may be situations where some sharing economy platforms act in line with the law. However, even then negative externalities may occur. When such a state of affairs affects negatively the external agents and the society in a global span, the decision of the policymaker to suppress the active platform should be straightforward[77]. But there may be an occurrence, where the platform harms just some agents, but all in all it raises the social welfare. Being precise, it still means that negative externalities are present and should be eliminated. Unfortunately, this approach may be affected due to the fiscal situation of the region, or arguments referring to selective regulatory tiering[78]. All in all, even in such cases, the law should protect people not involved in the platform from its negative externalities. Given that the law is a dynamic concept and is everlastingly evolving, regular analyses and honest consideration of complaints need to be performed.

Last, but not least, the undersupply of public goods is another type of market failure posing a challenge for policymakers[79]. Bearing in mind the causes why the free market is not going to assure the optimal level of supply of public goods, similar conclusions can be drawn as to the sharing economy. Even with a relatively high level of people's interest in social ties that associate the sharing economy, other factors, mainly monetary, cause that the sharing economy by itself would not provide an optimal level of public goods either. It is not a particular disadvantage of the sharing economy, since justified arguments for expecting such a characteristic are lacking.

On the contrary and with respect to the social aspect of the sharing economy, the usage of platforms typical for this sphere, could be an interesting lesson for

[77] Ch. Horne, *Collective benefits, exchange interests, and norm enforcement*, "Social Forces" 2004, Vol. 82, No. 3, pp. 1037–1062.

[78] W.A. Brock, D.S. Evans, *The economics of regulatory tiering*, "The RAND Journal of Economics" 1985, Vol. 16, No. 3, pp. 398–409.

[79] I. Kaul, *Global public goods: Explaining their underprovision*, "Journal of International Economic Law" 2012, Vol. 15, No. 3, pp. 729–750; G.R. Zodrow, P. Mieszkowski, *Pigou, Tiebout, property taxation, and the underprovision of local public goods*, "Journal of Urban Economics" 1986, Vol. 19, No. 3, pp. 356–370.

policymakers. Because of the features of quasi-free or regulated markets, a vast portion of public goods has to be supplied (or funded) by the state, also due to their role[80]. However, policymakers and governors may probably take an advantage from the sharing economy. Some of the factors underpinning the sharing economy are the interest in social connections, overall welfare, sharing knowledge, experience or assets. With reference to this point, the state could boost the supply of public goods by enhancing the society to participate in projects involving the development of public goods[81]. Thanks to such a perspective, a new form apart from popular peer-to-peer or business-to-peer models, would probably evolve.

What is crucial while regulating the sharing economy, is a proper *ex ante* analysis of the proposed legal institutions, independent from the subjects responsible for the legal changes[82]. A proper implementation of regulations and their execution may be both time and money consuming. It may even undermine the point of regulatory policy. What should be kept in mind is that market processes are dynamic, what is crucial and challenging in the context of designing adequate regulations. Thus, some regulations should be general enough to handle eventual new circumstances.

6. CONCLUSIONS

The main goal of this paper was to contribute to a better understanding of the character and effects of regulatory policies for sharing economy sectors. Recent cross-disciplinary studies regarding the relevance of legislation for providing institutional frames crucial to the market and society, that combine economics, legal and political science, reveal the importance of this topic. However, the regulatory challenges seem to remain a sophisticated *lacuna* that should be exploited more.

The question arises whether regulatory intervention of a state into sharing economy spheres has any perspectives to be really operative and effective. In fact, inappropriately large sums of public funds may be wasted on imposing and executing suboptimal formal institutions (directly and indirectly). On the other hand, sometimes it is almost impossible or very time consuming to secure clients and markets against spectacular failures without any social loses. Thus, the challenge is to minimize the number and scope of suboptimal regulations.

[80] J.R. Hummel, *National goods versus public goods: Defense, disarmament, and free riders*, “The Review of Austrian Economics” 1990, Vol. 4, pp. 88–122.

[81] M. Bagnoli, B.L. Lipman, *Provision of public goods: Fully implementing the core through private contributions*, “The Review of Economic Studies” 1989, Vol. 56, No. 4, pp. 583–601.

[82] S. Smismans, *Policy evaluation in the EU: The challenges of linking* ex ante *and* ex post *appraisal*, “European Journal of Risk Regulation” 2015, Vol. 6, No. 1, pp. 6–26.

The number of papers devoted to the issue of sharing economy is rapidly growing and reflects the dynamically changing importance of this sphere. A broad literature on the definitional, social or market aspects of the sharing economy, is becoming available. Even if there is no commonly accepted definition of the sharing economy available, the quality of the newly proposed concepts is satisfactory. A vast portion of literature is about market changes due to the development of the sharing economy as well as its social impact. However, what is still missing, is the context of market failures associating the sharing economy.

Market failures are not only a domain of traditional business – they affect the sharing economy units as well. The paper covered the spheres of information asymmetry, imperfect competition, negative externalities, and the supply of public goods. What may be generally concluded is that there are no sufficient arguments for treating sharing economy entities more favorably as compared to other organizations. Of course, our point of reference is pure sharing economy, as when it comes to professionalization of sharing economy services, we are simply dealing with business.

Information asymmetry in terms of for-profit sharing economy platforms affects the consumers and the process of exchange in the same way as in the case of other business models. With regard to non-for-profit organizations, informational requirements may be relatively lower, but potential clients should be aware of a higher risk of abuse. With respect to imperfect competition and negative externalities, sharing economy entities may play a key role and should not be excused from respecting general legal rules. Otherwise, some market actors would gain the sharing economy cover just to take advantage of the exemptions. The sharing economy may be also an attractive channel of activity from the perspective of policymakers for mixing direct governmental support with other (social) sources for public goods.

We believe that applying the proposed approach linking theoretical and empirical economic literature with actual studies on regulatory policies is a value added. More systematic empirical analysis may allow for formulating more reliable and scientifically-based recommendations on public policies in order to create a formal setting conductive to the optimal functioning of sharing economy organizations. It may allow for a more successful quest for the possibly most adequate public support programs in the future responding to the needs of advanced economies, as well as emerging markets and developing states.

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