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## Synopsis

America's economic revolution isn't just driven by technology. It's about markets. The past twenty-five years have witnessed a remarkable shift in how we get the stuff we want. If you've ever owned a business, rented an apartment, or shopped online, you've had a front-row seat for this revolution-in-progress. Breakthrough companies like Amazon and Uber have disrupted the old ways and made the economy work better—all thanks to technology. At least that's how the story of the modern economy is usually told. But in this lucid, witty book, Ray Fisman and Tim Sullivan show that the revolution is bigger than tech: it is really a story about the transformation of markets. From the auction theories that power Google's ad sales algorithms to the models that online retailers use to prevent internet fraud, even the most high-tech modern businesses are empowered by theory first envisioned by economists. And we're all participants in this revolution. Every time you book a room on Airbnb, hire a car on Lyft, or click on an ad, you too are reshaping our social institutions and our lives. *The Inner Lives of Markets* is necessary reading for the modern world: it reveals the blueprint for how we work, live, and shop, and offers wisdom for how to do it better.

## Book Information

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## Customer Reviews

“An entertaining overview of economic thought from WWII to the 2000s; witty and energetic.” —*Publishers Weekly*  
“Bright, accessible; A thoughtful examination of the mechanics of our one-click world.” —*Kirkus Reviews*; This

book is essential reading for any non-economist who wants to understand how markets shape our world, including transformational marketplaces like , Airbnb, and eBay. —Reid Hoffman, chairman of LinkedIn; With great clarity and with many vivid examples, *The Inner Lives of Markets* explains how the post-World War II worldly philosophers (i.e., economists) have reconceived the workings of our economic system. That reconception takes us far from the black and white of Adam Smith and Karl Marx; yet more interestingly, it is in many shades of gray. —George Akerlof, Nobel Laureate in Economics

Ray Fisman is the Slater Chair in Behavioral Economics at Boston University. Previously, he was Lambert Family Professor of Social Enterprise and co-director of the Social Enterprise Program at the Columbia Business School. He is the author of *The Org*, with Tim Sullivan, and *Economic Gangsters*, with Ted Miguel. Tim Sullivan is the editorial director of Harvard Business Review Press and has worked at Basic Books, Portfolio, and Princeton University Press, where he helped build one of the most successful academic economics lists in the world.

Every one of us are likely to be engaged in markets most days of our lives. Choosing your child's best school? Finding a dance partner? Bidding on Ebay? Buying at a market? Getting a ride on Uber or Lyft? Donating an organ? Negotiating a salary? Buying a product on ? *The Inner Lives of Markets* gives us the insights and understanding of how these markets work, and outlines some of the breakthrough solutions over the last 50 years. We can all benefit from reading this outstanding book.

Economist Ray Fisman and HBR Press Editorial Director Tim Sullivan tell a fascinating story of the role played by markets in our daily lives. They use vivid examples from a wide range of circumstances (eBay, school lotteries, POW camps) to illustrate economic theories developed over the past century, and the result is a thoroughly readable book that both educates and entertains. It's a worthy follow-up to Fisman and Sullivan's *The Org: The Underlying Logic of the Office* and serves a similar function by exploring aspects of our world that we tend to take for granted and explaining why things are the way they are. Both "The Org" and "The Inner Lives of Markets" do a great job of translating complex intellectual concepts into straightforward prose, and I highly recommend both to anyone who has an interest in business or economic life. (Full disclosure: I collaborate with Tim Sullivan at HBR and think he's a great guy.)

For anyone in business, this book offers a clear overview of the economics that rule the world we do business in. Concise, to the point and enlightening. Thanks. Rasmus Hougaard

Interesting read. Was on the book list of what Reid Hoffman was reading.

very insightful look at modern market dynamics..

HL Mencken is credited with saying that “for every complex problem there is an answer that is clear, simple and wrong.” The authors of “Inner Lives of Markets” claim to have been inspired by a book they found at the MIT bookstore that contained “reprints of the most important physics papers of the twentieth century, together with [ ] what they accomplished and why they were important.” What they have borrowed from this book is the structure, rather than the goal. Their much higher aim is to guide you, based on their reading of some seminal post-WWII Economics papers, to the conclusion that HL Mencken’s qualification must be applied to the generally accepted axiom that markets can solve all our problems: yes, there usually is a market-based solution, but you have to adapt the theory to the particulars of the problem you are trying to solve. They set the scene early on, explaining that markets can make the difference between life and death: Trading between POWs (using cigarettes as currency) saved the lives of thousands of prisoners of war in WWII. Prisoners in camps where no trading was allowed and camps that were run by senior officers were much more likely to die than prisoners who were allowed to trade their rations. “Markets work” is the message here. From there the authors move on to a high-level discussion of how Samuelson (’70 Nobel), Arrow (’72) and Debreu (’83) brought rigor to the study of Economics, but I have no idea why this chapter is here. The rest of the book is nothing to do with them, it’s a guided tour of some papers that endeavored to stop us looking at the economy as a whole and brought us back to basics, so we can examine individual markets one at a time: Akerlof’s (’01) work regarding lemons is hailed as a major breakthrough, but is also criticized as ultimately inadequate to actually describe what happens with used cars, a market that somehow manages to clear, to say nothing of eBay and airBnB making a splash, despite the massive information asymmetries that logic would dictate should have stopped them in their tracks. Spence’s (’01) work on signalling is added to the mix, as an early theory providing a remedy to the asymmetric information problem that ought to plague markets. (Spence, btw, stopped doing economics more

than 25 years ago and has found his true calling as an administrator in academia and Nobel Prize-accredited pundit) The theoretically “most efficient” Vickrey (’96) auction (where the highest bidder in a sealed-bidding process pays the price submitted by the second-highest bidder) is discussed next, as an introduction to a long chapter that unveils some of the shortcomings of this type of market-clearing process and other types of auctions that address these potential shortcomings. Stories involving Goethe (they weren’t doing the Literature Prize in his day) and the trading of Japanese baseball players by American teams keep this interesting, if trivial. A chapter follows on “platforms” such as the Visa payment system and medieval trade fairs, Expedia, eBay and LinkedIn, but its hero is economist Jean Tirole (’14), and the main point is they are all different and you can’t cover them all with one theory. The point is made again when the authors (successfully, bravo!) take you through Shapley’s algorithm that produces “stable” couples of boys and girls for the prom (the kind that won’t leave a single couple glancing at each other from the opposite side of the dancefloor, but will still obviously leave the prom queen dancing with the captain of the football team), only to tell you that you need a guru like Alvin Roth (’12) to solve more complex matching problems such as assigning kids to schools in Boston (for the record, I think the authors get either the answer wrong or the explanation here) or swapping kidneys between donors. The two penultimate chapters are a wash: one’s about how a committed socialist who worked for a food bank was delighted to work using an internal currency of “shares” to allocate corporate food donations to the most needy branches of the food bank; the other is about how sometimes you should perhaps put efficiency to one side and recalls an early Larry Summers (the committee’s Antichrist at this point, but don’t count him out) faux pas regarding the trading in waste between poor and rich countries. (If I understand this right, Summers took the flak for standing behind the work of one of his underlings on this one, so the authors need to get their story straight, but the point is well made) In the final chapter, the authors introduce the concept of time: what’s good now may be bad later, but you may find that “bad” habits are difficult to drop. So to do business in a backwards place you may have to initially hire minors or pay some bribes, but once this locale has moved forward from an economic standpoint, what wins? It’s a question Andrei Shleifer (robbed in ’13) posed and it is very deep indeed. I wanted to love this book, but in the end I could not. I think its failure lies in the structure. It all would have stood much better if it had not been structured around the papers by the famous people. And I got sick of being told how important all these Nobel Prize winners were. Indeed, most books that talk about Economics are full

of references to the peers of the authors. If you read a book by a giant, he will be discussing the work of his fellow giants and if you read a book by an up-and-coming guy all references will be to the work of his sparring partners in the field and none of the names will mean anything to you, but that's OK. Not this book. All references here are either to Nobel Prize winners or to dead people, with special mention for the one point where the Venn diagram meets, an economist who was (unwittingly from the Swedish side) awarded the prize posthumously! My mom once advised me in her oblique and roundabout way to stay away from girls who don't seem to have any girlfriends. I never got to test her theory, but this is a book by economists who don't seem to have any economist friends they're comfortable talking about. "The Inner Lives of Markets" has a tremendous premise: Put in the work and the market will reward you. But the analysis is superficial, the average reader will not feel the "star power" of Akerlof or Spence and this book is at best OK reading for that "economics for poets" distributional requirement at BU where one of the authors teaches. Which is a shame, because this is a story that's crying out to be told.

I'm generally averse to business books, but Tim Sullivan and Ray Fisman brought me into the very human drivers of how markets form and invariably shape us with a combination of ingenious stories, great writing and a winning tone. If you've ever felt emotional agreement with Yuval Harari's concept of "imagined realities" about concepts like LLCs, religions, and yes, markets, you'll love this book. It's a wonderful generalist read in the same way that "Cod: A Biography of the Fish that Changed the World" is. You never thought you'd be interested, then you keep picking it up until you're done. Certainly it compelled my interest a lot more than Shiller's Animal Spirits did. Recommended.

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