

Knowledge in the Marketplace

A Case Study of the Darya Ganj Second Hand Book
Market



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Abstract

This paper seeks to examine the role, spread and acquisition of knowledge in second hand markets. We studied the Darya Ganj second hand book market in Delhi, India. There is an uneven distribution of knowledge that the Darya Ganj seller has to deal with across agents and amongst his own peers. But the market has unique exchange relations and mechanisms that take care of these knowledge problems. Additionally, we find that sometimes knowledge in the form of signals is not accepted due to risk concerns. Finally, we pose further extensions in the form of queries dealing with exchange structures in markets, bargaining theory and the efficacy of signalling as tool of spreading knowledge.

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1. Introduction and Motivation

Friedrich Hayek, while thinking about a rational economic order in 1945 wrote, "... it is a problem of the utilisation of knowledge not given to anyone in its totality." He went on to talk about "the unavoidable imperfections of man's knowledge and the consequent need for a process by which knowledge is constantly communicated and acquired". Such was the importance of knowledge to the economists of the past. Not only so, in 1970 George Akerlof wrote on *The Market for Lemons*, relating quality and uncertainty. He said, "Information is crucial in the market and, under certain conditions, its lack could lead to market failures. Although Hayek and Akerlof came from two different persuasions and their reasoning was based on different assumptions, these two great economists led the world to think about knowledge and its importance in the market. This grand theme is what we have strived to capture in this paper, painfully aware of the limits of our own 'knowledge'.

While we wished to examine this theme, we needed a market to see how knowledge actually worked and spread in it. The Darya Ganj second hand book market emerged as a perfect case to study because:

- Since this is a second hand book market, the stated price on a book loses its value as a decision making variable. Decisions here need to be made on a derived estimate of the value of the book. How these estimates are formed is of importance to this paper. These estimates are formed on the basis of knowledge that the buyer and seller across different levels possess.
- The market has no form of exterior control. Here pricing decisions are made solely on the basis of the seller's perception. There are no price controls. Examining knowledge in a 'free market' is easier as agents can make choices independent of intervention, thus allowing choices to truly reflect an agent's preference.

What makes the Darya Ganj second hand book market even more interesting is its structure. Though this will be discussed in detail in this paper, it is instructive to touch upon the areas that lent motivation to the paper. A significant proportion of the Darya Ganj sellers possess a low degree of information about the product – books – that they are selling. In fact, what led us initially to the Darya Ganj market is the following. The seller faces a double information asymmetry; both his supplier and customer knows more about the book than the seller is either purchasing or selling. As mentioned at the beginning, markets could possibly fail in the existence of information asymmetry. Putting these two facts together, a puzzle emerged--. How does the Darya Ganj seller survive? Since the market has been in existence for over half a decade we were eager to study the mechanisms they adopted to 'solve' the knowledge problems.

In our paper, we first introduce the Darya Ganj market the sellers and the books that are traded there. We have then given the laws that govern the market, briefly touching on the problem of extortion. The supply chain that a typical Darya Ganj seller deals with is presented. This chain is not exhaustive and the section on trade secrets discusses the possible extensions of the supply chain. To get an in-depth knowledge of the market and pricing decisions, we studied three Darya Ganj sellers as case studies. The three sellers are all male¹, have different standing in the market and come from different educational backgrounds. To gather information about and from them, we conducted interviews, visited their homes and sat with them in the market place. From here, the paper moves on to talk of knowledge

¹ The Darya Ganj market has only two female sellers. One of the female sellers in the market is the wife of another seller, and the other female seller sells maps and charts (and so is not part of the book market per se.)

'problems' in the market. The use of the word problem is just an indication of the workings of the market that puzzled us; in many cases these problems did not even occur to the Darya Ganj seller.

We have broadly three categories of problems:

1. We examine the Darya Ganj seller's cost and pricing decisions in light of Akerlof's formulation of knowledge asymmetry. Here we see how the market has come up with its own specialised forms of exchange to deal with the unequal distribution of knowledge. This problem is broken down into two parts – How the Darya Ganj seller buys books and sells books.
2. We discuss the unique phenomenon of inter-seller trading at Darya Ganj. Before the customers pour in on a Sunday, some Darya Ganj sellers visit other sellers' stalls and buy books from them to sell during the day. The former group chooses and buys books individually. This poses a conceptual problem. When one seller approaches another seller in the same market for a book, the very fact that the former has approached the latter should be an indication of the high value and demand for the particular book. The second Darya Ganj seller should ideally retain the book to sell later. However this rarely happens. The Darya Ganj inter-seller trade is healthy and active. We have sought to explain this by a discussion of risk that a typical Darya Ganj seller faces.
3. We look at why there is a steep drop in the price when customers sell back books even when the physical condition of the book is good. This problem seems to fit Akerlof's formulation relatively more neatly than the first.

We conclude the paper by offering theoretical extensions. Finally we've attached an appendix that has some data pertaining to the Darya Ganj second hand book market.

Methodology

We conducted primary research for this paper. Information has been collected first hand through observation of the sellers in the market, interviews, interacting with people across the supply chain and by sitting at stalls on Sundays. We have tried to substantiate whatever we were told by the Darya Ganj sellers by observation in the market. We have also quizzed separate sellers individually to crosscheck answers. There was a definite incentive to lie as the Darya Ganj seller's profit is linked to his supply chain. We worked on this challenge by developing personal relationships with some of the sellers, visiting their homes and by gaining their trust. It is for this reason that we do not use real names in our case studies. After we collected data and noticed some knowledge 'problems' in the market, we applied simple theory to make our deductions.

2. DESCRIPTION OF THE MARKET

2.1 General Description

Darya Ganj is one of the oldest markets in the capital city of New Delhi in India. Darya Ganj, which means 'river neighbourhood', gets its name from the Yamuna River. Present since the time of the Mughals, it symbolises the harmony between the old and the new in Delhi. Today Darya Ganj is a busy, congested area, full of life. It is known for its Mughal architecture and most importantly the *Kitab* (book) Bazaar.

The Sunday book market (*Kitab Bazaar*) is one of India's largest second hand book markets and consists of over 250 book vendors who sell old books, magazines, journals, novels, and academic books, to name a few. The book market started in the year 1965² with a handful of traders. These traders spent 6 days of the week collecting books from various *kabadiwalas*³ and then sold them on the seventh day at the pavement in Darya Ganj. Their first customers were book lovers and general passers-by. However, soon the sellers started getting regulars who would not only buy books but also sell old books back. Initially these handfuls of sellers sat among various other street vendors (vegetable-sellers, fruit-sellers, etc) but with time they started sitting together, resulting in the formation of the Sunday book market. The book market has now grown to be one of the most vibrant markets in Delhi, providing livelihood to more than a thousand people.

The market starts at the beginning of Bhahadur Shah Zafar Marg and ends at the Delite cinema hall on Asaf Ali road. The starting point of the market has few booksellers amongst other street vendors selling clothes, posters, utensils etc. The actual book market⁴ starts from the Golcha cinema hall. The market forms an 'L' along a one and half kilometre stretch. The Sunday book market starts at 6am every Sunday and ends at 6pm in the evening. The books arrive on rickshaws, hand-carts, auto-carriers and cycles from near-by godowns and seller's homes.

Booksellers are found sitting on either side of the pavement with stacks of books mounted high against the wall. The market on Bhahadur Shah Zafar Marg is an open space where the sellers often put up a temporary shade to protect the books and themselves against the sun or rain. The market on Asaf Ali road is protected by a roof above the pavements and therefore protected from the seasonal weather changes⁵.

2.2 Types of Books

The Darya Ganj book market contains books of almost all kinds. On observation the authors noticed that almost half of the book stalls were solely for academic books for all courses and classes. Schoolbooks are extremely common here. Often students sell their old school books to the sellers at a small price. The booksellers in turn sell these books back to new students thus creating a market for second hand books. The market goes through many changes every few years. We often see the Central Board of Secondary Education (CBSE) syllabus changing. In such cases, many other booksellers⁶ sell their old

²As told by one of the sellers. Some sources say that it originated near Jama Masjid in the year 1964.

³Kabadiwalas: Scrap dealers who collect second hand books from different households.

⁴Actual book market refers to the physical section (location) of the market that has only booksellers.

⁵This could lead to possible economic benefits in the monsoons and peak summer months.

⁶Book sellers : here I am referring to book sellers who are not a part of the Darya Ganj book market.

books to the Darya Ganj sellers. These books become rare editions as they are no longer printed⁷. The booksellers often sell the schoolbooks in bunches depending on the student's course and their grade. This way students are able to buy all their books at a combined discount and the sellers are able to sell many books at the same time.

This market has a large variety of college books too. Located in north Delhi, Darya Ganj provides easy access to students from North Campus, Delhi University. Thus many college students buy and sell their books here. They often find rare edition books, academic journals and most importantly all their main course books at half the price, thus making books easy on their pockets.

Darya Ganj also has books for competitive exams. Students preparing for MBA, CAT, GRE, Medical schools, computer schools, Indian Administrative Services (IAS) often find their books at half the price. Darya Ganj is full of guides⁸ that can be bought at less than half the cover price⁹. The guides also work in a similar fashion as other academic books. Students who have finished with their competent exams come back and sell the same guides back to the booksellers. Different guides such as *Kundrababa* (used by school students to help explain the CBSE text book), RD Sharma (used as a guide for maths students for extra practice), IELTS (book for competent English exam), MBA (Management books) are amongst the popular books in the market.

Darya Ganj is a gold mine for those who enjoy reading novels. One can spot everything from fiction to autobiographies, from romance to thrillers. It contains both past and current best sellers. It is interesting to see a bookseller keep old time favourites such as Mills and Boons along with the current favourites such as the Harry Potter series. It is also interesting to note that the book market contains a large number of books that are no longer available in the general market. The book sellers source their books from many places thereby creating a large collection of unique books. Old classics such as *The Count of Monte Cristo*, *The Three Musketeers* and *Man in the Iron Mask* are found in abundance here. Darya Ganj doesn't only have old classics but also recently published books.

Apart from novels and academic books, the Darya Ganj book market contains books for people of different interests. A music lover could find books on the history of guitars and a cook could find a large collection of recipe books. It contains a large variety of religious books too--different versions of the Bible, the Gita and the Koran are just some of the common religious books found here. The market contains books for all age groups. One can find children's books for all ages and of all types. Books in different languages can easily be found here. Apart from English and Hindi, one can find books written in Urdu, Punjabi, French, German, etc.

The diversity observed is primarily because of the unique supply chain that exists within the market. One of the primary sources of the booksellers is the *kabadiwalas* (scrap dealer). The *kabadiwalas* buy used books often in good conditions from different households¹⁰ and sells them at Darya Ganj at a small profit. These second hand books are then sold at a profit to customers. Individual customers also account for the second hand books as many have regularly started using the Darya Ganj book market as a library. They often return the books that they've bought at a little loss and instead take home another

⁷ Often older students who are preparing for IAS or other competent exams pick up these books.

⁸ Guides are books that are meant to help explain another book. Often they are also books that provide extra course material to practice.

⁹ MBA – Masters of Business Administration, CAT – Common Admission Test, GRE – Graduate Record Examinations, IAS – Indian Administrative Service.

¹⁰ Refer to page 15

book. This mostly happens with comics. With academic books things are a bit different. Every year after the exams get over students come and sell off their old academic books. They return at the starting of a year to purchase second hand books that someone else might have sold off, thus making this affair an annual one. The authors were informed by one of the sellers that June and July are high season time for them. That is the time when colleges and schools reopen in Delhi. Hence most of the students come at that time to sell and buy books.

Other than second hand books, one can also see many pirated books. An entire pirated books market exists in Delhi. These pirated books are often found in places such as the pavements of Connaught Place (CP). The Darya Ganj market, earlier free from such books has in recent times seen an entry of the same. This has caused ripples in the market and is adversely affecting sellers who do not engage in piracy¹¹.

Rejected books are also brought into the Darya Ganj book market. These are books that are rejected by publishers due to defects or misprints. The booksellers buy them at very low prices. Some of the booksellers informed us that publishers often sell these books to them. Apart from publishers, American containers, which come seasonally also bring rejected books into the market. They are auctioned at Pragati Maidan¹² in cartons.

Brand new books can also be seen in the market. These books are often sourced from the railway auctions that take place at the railway station. At times, some shipments of books get lost while they're being transported from one place to another. The publishers claim the insurance of these books and often do not try and locate them. These lost books are sold off during an auction at the railway station. The books are neither damaged nor pirated.

2.3 The Darya Ganj Book Market Sellers

The sellers at the Sunday book bazaar can be classified into different types depending on the books and their size:

- Each seller does not sell all types of books, some sell only academic books and some only novels while others sell a variety of books.
- Each seller is free to decide what kind of books s/he would like to keep in his/her stall¹³. Apart from the type of books sellers can also be distinguished on the basis of the prices and the way books are stacked. Some stalls keep their books in a large bundle strewn across the floor. The entire bundle has books of the same price. Sometimes booksellers keep the books in different piles. Each pile is allotted a specific price. On interviewing certain booksellers we realised that the display of the books can often be attributed to the amount of knowledge that a bookseller has about the books. Those who display the book in piles and price all at the same level often have less knowledge about the books. They don't know the value of each book; hence they try and make a uniform margin on each book. Certain stalls try and display each book. At these stalls, each book is priced differently. Here also we can make an assumption that the bookseller has a certain amount of knowledge about each book. S/He is able to price each book on a

¹¹Mein Kampf (Hitler's autobiography) is available at Rs 600 – 700 Rs in a standard book store. However its pirated version which is available at the pavements of CP is available at Rs 200. At Darya Ganj we found the book to be priced at Rs 100. One of the vendors at CP informed us that these books were pirated. The claim was substantiated by one of the authors' contact at Darya Ganj. Given that a consumer prefers a book in good condition to a book in bad condition, these 'new' pirated books are driving out some of the original old books.

¹²Pragati Maidan is located near central west Delhi.

¹³It would be interesting to understand why some traders would choose to specialize in certain books. Few guesses emerge. It could be possible that the specialization depended on the supply or perhaps certain sellers had more knowledge about a certain type of book hence choose to keep only that.

variety of factors such as demand, edition and observational factors (such as interest of the customer, facial expressions etc.).The stalls at the Sunday book bazaar are of various sizes. Some booksellers have larger area while some have a smaller one. There is no real rule on who gets a larger area. There is a general understanding among the booksellers to not infringe upon another seller's space. The number of books also varies from stall to stall.

The Sunday book market sellers come from different backgrounds:

- Most of the sellers have a separate job for the rest of the week. However there are some who only work at the Sunday book market, they spend the rest of the week collecting books from various places.
- Many booksellers work in the book business. They own separate bookshops located in different parts of the city.
- Most of the sellers have a very low level of education. Though many might not be educated, a majority of them have abundant knowledge pertaining to books, which they have collected over several years of interaction amongst the sellers and observing the various trends in the market.
- The older the bookseller the more information he has about the business. This knowledge is also reflected in the pricing of the books. Many sellers price their books depending on the seasonality factor as well as the edition, condition and demand.

Different booksellers have a different number of books. Some booksellers have as many as 8,000 books per stall while others have as little as 100 books at a stall. On enquiry we found that many sellers had more than one stall. The owner of the stall hired workers who managed his other stalls which were not near him. Often if a seller has more than one stall then he displays the books depending on their type. He keeps the academic books in one stall and novels in another.

Most of the sellers are a part of the Sunday Book Bazaar Patri Welfare Association. The association was created to showcase a united front against the harassment of the government and the police. The association has seven members. The president of the union informed us that the association has a very parental role. It protects the sellers from interference by the Municipal Corporation of Delhi (MCD) and the police. He cited examples of cases where the MCD had tried to shut down the market but with intervention by the likes of Sheila Dixit¹⁴ and Khushwant Singh¹⁵ on behalf of the association, had prevented its removal. However the association no longer seems to be active and today rarely meet to discuss matters at hand.

The Sunday book market is an extremely unique market. One can find books of all prices here. The range of books starts at as little as Rs 10 and often goes up to as high as Rs 5,000. The books are normally found to be less than 50% of their actual price. The values of the books available are way higher than their price. The market attracts people from all over the world and is today one of Delhi's top tourist spots. More importantly, the book market is a big convenience to many students who cannot afford to buy the expensive books at other places.

¹⁴ Current Chief Minister of Delhi

¹⁵ Prominent Indian novelist and journalist

3. Laws Governing the Market

The booksellers of the Sunday book market can be classified as street vendors. A street vendor according to the National Policy on Street Vendors (Department of Urban Employment and Poverty Alleviation 2004) is broadly defined as “a person who offers goods for sale to the public without having a permanent built up structure but with a temporary static structure or mobile stall (or head load). Street vendors may be stationary by occupying space on the pavements or other public/private areas, or may be mobile in the sense that they move from place to place carrying their wares on push carts or in cycles or baskets on their heads, or may sell their wares in moving trains, bus etc.” The laws for street vendors are yet to be properly defined in India. Many see street vendors as a form of nuisance present in urban cities today. Some feel that public property, such as a pavement is meant only for walking. A specific group/person should not use it to conduct any commercial activity. While such opinions do exist, nobody denies the importance of the Sunday book market present at Darya Ganj. It sells books at very cheap prices making it a necessity for many students.

The Darya Ganj book market comes under the *Tehbazari* system of licensing. *Tehbazari*, as explained in a judgment¹⁶, is a license in favour of the grantee to squat at a notified site on a pavement and conduct business. Needless to state, a license is a personal right and cannot be transferred or assigned. This is evident from a perusal of Section 56 of the Indian Easement Act 1882.

The Supreme Court has laid down four categories of the *Tehbazari* system:

1. Regular *Tehbazari*
2. Casual *Tehbazari*
3. Open *Tehbazari*
4. *Pheri* or Mobile Hawking

Casual *Tehbazari* refers to the licenses given out to people who sell goods on a weekly basis. Darya Ganj comes under this form of *Tehbazari* as it is only present on Sundays. While speaking with one of the Darya Ganj sellers we were informed that under the *Tehbazari* system, vendors are given the right to vend at a specific area. If a vendor is removed from his vending zone then the government is legally bound to provide the vendor with a shop¹⁷ located somewhere else.

Each seller is given a license for a specific area in the market. According to the NDMC¹⁸, the license given to each vendor is not transferable. However in reality we see a different picture. Many vendors informed us that licenses are regularly sold and bought. Many times the license is also rented out to other vendors. We were informed that a license is sold at as high as Rs 5 lac¹⁹. With the license the Darya Ganj seller is required to pay Rs 60 per month to the MCD as a fee. However in reality every street vendor pays around Rs 500 per day to various people. On observation and after talking to some of the street vendors we were informed that every day the MCD takes Rs 25 as their fee. In return they cut a receipt of Rs 15. The extra Rs 10 collected by the MCD officials is not legally merited. The MCD takes this fee on the pretext of maintaining the area. The reality is quite different. The booksellers have to

¹⁶This judgment came out in a case *Shri Uttam Singh vs New Delhi Municipal Committee* on 10 March, 2006. Where *Shri Uttam Singh* asked for the right to transfer his license.

¹⁷By shop here we are referring to a brick and cement shop. The government exercises the right to decide where the shop should be located.

¹⁸NDMC: New Delhi Municipal Corporation.

¹⁹A book seller informed us that few sellers in the market own as many as 3-4 licenses which they rent out.

maintain the area on their own. Every Sunday each seller pays a sweeper Rs 10 to clean the area. Further, the police act states that a seller can be fined up to Rs 200 if they do not keep the area clean.²⁰

Apart from the MCD the police also takes an amount from the street vendors. This transaction is commonly referred to as a *Hafta*. On observation we saw that a vendor pays the police at three different times. The first police representative takes Rs 100 per stall. The other takes Rs 70 per person. The third is taken by the SHO (station house officer). The SHO takes about Rs 25 per vendor. In total the Darya Ganj seller pays around Rs 220 as *hafta*. The police collect this money illegally. However there are reasons that they can cite for taking this money.

There are certain rules that are present in the Police Act²¹, which can be misinterpreted such as the following from Section 34; Punishment for certain offences on roads, etc.:

Any person who, on any road or in any 2 (open place or) street or thoroughfare within the limits of any town to which this section shall be specially extended by the State Government, commits any of the following offences, to the obstruction, inconvenience, annoyance, risk, danger of damage of the 3 (residents or passengers) shall, on conviction before a Magistrate, be liable to a fine not exceeding 50 rupees, or to imprisonment 4 (with or without hard labour) not exceeding 8 days; and it shall be lawful for any police officer to take into custody; without a warrant, any person who, within his view, commits any of such offences namely :

- First-Slaughtering cattle, Curious riding, etc: Any person who slaughters any cattle or cleans any carcass; any person who rides or drives any cattle recklessly or furiously, or trains or breaks any horse or other cattle;
- Second-Cruelty to animal: Any person, who wantonly or cruelly beats, abuses or tortures any animal;
- Third-Obstructing passengers: Any person who keeps any cattle or conveyance of any kind standing longer, than is required, for loading or unloading or for taking up or setting down passengers, or who leaves any conveyance in such a manner as to cause inconvenience or danger to the public;
- Fourth-Exposing goods for sale: Any person who exposes any goods for sale;
- Fifth-Throwing dirt into street: Any person who throws or lays down any dirt, filth, rubbish or any stones or building materials, or who constructs any cowshed, stable or the like or who causes any offensive matter to run from any house, factory, dung-heap or the like;
- Sixth-Being found drunk or riotous: Any person who is found drunk or riotous or who is incapable of taking care of himself;
- Seventh-Indecent exposure of person: Any person who willfully and indecently exposes his person, or any offensive deformity or disease, or commits nuisance by easing himself, or by bathing or washing in any tank or reservoir, not being a place set apart for the purpose; and
- Eighth-Neglect to protect dangerous places: Any person who neglects to fence in or duly to protect any well, tank or other dangerous place or structure.

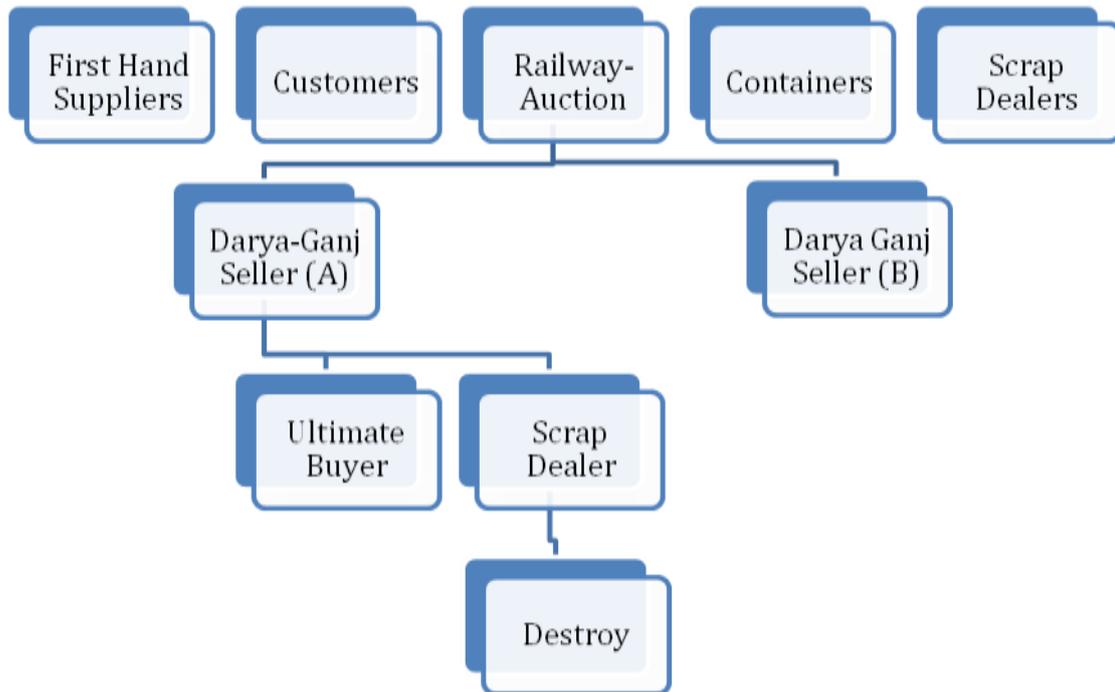
²⁰It is interesting to point out that two contradictory laws exist for the same market. The MCD take a fee from the sellers to maintain the area. At the same time, if a seller does not maintain the area on his own he is liable for a fine from the police. Another aspect which we were unable to understand was why different representative of the police collect a different hafta. A possible guess could be that since it is illegal there is no form of control present.

²¹The police act was provided to us by the police station.

With such a rule the police have enormous amount of power over the booksellers. The rule in itself is extremely vague and can be interpreted in various ways. Many times the police arrest or fine the vendors stating the above section. Often the reasons stated are not even true, still the street vendors end up paying that fine. The police often levy a fine which is too high for the vendors to pay. The books of the street vendors are often taken away arbitrarily because of the power that is given to the police with this act. That results in huge losses for them. It is due to such harassment that the Sunday book Bazaar Patri Welfare Association was created. Today the sellers find it easier to give the *hafta* than to allow the police to harass them. This *hafta* adds to the prices of the books.

4. THE SECOND HAND MARKET’S SUPPLY CHAIN

Figure 1: The Darya Gang Supply Chain



Darya Ganj book market has a unique supply chain. There are three levels of agents with each level interacting with the others. Possibly one could go higher to find the source of the origin of the book, but, since our focus is on the Darya Ganj book seller we will look only at the levels of agents preceding and following the seller. We define Level One as the ‘uppermost’ level in the supply chain. This is followed by Level Two -the Darya Ganj sellers themselves. Level Three is the lowermost level.

4.1 Level One

At Level One there are broadly five categories of agents. These agents are suppliers to the Darya Ganj traders. Within these categories, however, the sellers have individual sources that are kept secret. A further examination of the categories of Level One Agents will throw light on the phenomenon observed. Given below are the agents with a description of each following which is a brief discussion of trade secrets.

4.1.1 First Hand Book Suppliers

These agents work in the first hand book market and are usually distributors. Acting as traders, they bridge the gap between institutional demand (colleges, schools, libraries, etc.) and publishing houses. Upon receiving orders, these suppliers buy books from publishing houses and deliver them. These orders are essentially in bulk and therefore some level of investible funds is required to engage within this category. At times, these orders go bad and so the supplier ends up with books that he can sell to

no one. Books, as mentioned before, are sold by orders; this means that the supplier cannot sell the remaining books to other institutions unless their orders have the same books that the supplier possesses. The supplier then ends up with first-hand books that he cannot sell. These books are kept for a certain period of time after-which they are sold to the Darya Ganj seller. This time-period typically depends on factors such as the subject or field of a book. Highly specialised books, for example a set of books ordered by Delhi University's Zoology Department are unlikely to be sold elsewhere. Holding them for longer would amount to higher storage costs. Books ordered by a certain undergraduate college are likely to be ordered by another undergraduate college, a supplier would generally hold such books longer. Another factor that influences holding-time would be the price of the book. Higher priced books are held for a longer duration. Size of the order gone bad would be reflected in holding time. The size of the order and the storage costs are positively related. Taking the marginal costs and benefits into account, the supplier makes his decision. Once he has made a decision to sell the books he has some options. One of these is the Darya Ganj seller. The supplier sells the book at a very low mark up or at times at no mark-up at all. Since the books are a sunk cost already, the supplier is willing to sell the books to the Darya Ganj seller. The other option of getting rid of the books is to sell them to a scrap-dealer (*kabadiwala*) who will pay less than the Darya Ganj dealer.

4.1.2 Customers

This category although consistent in its presence is not composed of the same individual players. Students, families shifting out of the city, individuals disposing of their personal libraries and others who sell books but don't have regular dealing with the Darya Ganj dealers constitute this category. This source then comprises units that are heterogeneous, trade once or at highly irregular intervals with the Darya Ganj sellers and are not connected to or compete with each other. Quantities traded are not consistent. Students tend to sell small amounts while people shifting out of town will sell larger quantities.

4.1.3 Railway Auction

Publishers and distributors throughout India use the railways as means to transport their consignments. The railways fix a period within which the consignment has to be picked up upon arrival to the destination station. If the consignment is not picked up they reserve the right to auction the books along with other merchandise.

The railway then has an open auction at a railway station. In Delhi, the railways have their auction at the New Delhi Railway Station. The books remain packed in cardboard boxes as they were originally packed for delivery. Some Darya Ganj sellers get their books from here. However, there is a great amount of risk involved because the bidders are not shown what the boxes contain. In essence they are not aware of the books they are bidding for. Bidding is done on the boxes (packages) rather than on individual books. Seller A has been to some of these auctions and says that either great loss or great profit can arise out of this transaction. Seller A also told us that some of the sellers who go to the auction have a pre-settled deal with some low level railway officials. These officials either show some of the books to the sellers or in some cases offer favourable deals to them.²²

²²Since the Railway auction takes place only as and when required, the authors did not get to observe the proceedings on one. Secondary sources have been relied on to furnish information about the same.

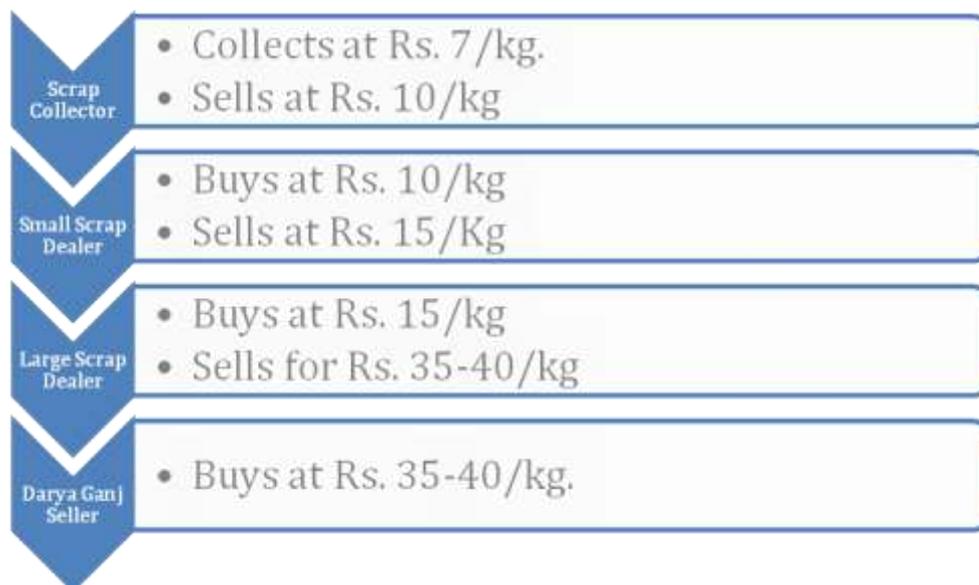
4.1.4 Containers

Books from this source are of foreign origin. We were told that these books are mainly from the United States of America. Books that are sold in scrap are sorted and shipped. They are brought to India in containers by sea. They are then transported to Delhi in trucks. These trucks arrive at certain places in Delhi²³. The traders who deal with such containers contact the Darya Ganj sellers and other booksellers. The former usually have telephone number and addresses of the latter. Seller A informed us that only the relatively better off Darya Ganj seller could invest here. He said that these books had an impact in the market some years ago but of late the containers were becoming infrequent.²⁴

4.1.5 Scrap Dealers (Kabbadiwalas)

Scrap dealers or *Kabbadiwalas* are an important part of the second hand book market. The scrap dealer category has several layers within itself. Figure 1 is a representation of these layers.²⁵

Figure 2: Scrap Dealer Supply Chain



The scrap dealer is a broad category. The first level is the scrap collector who goes door to door collecting scrap usually on a bicycle. He collects newspapers, books, bottles etc. The books are bought at Rs 7 per kg. After he has collected enough scrap from a number of houses he deposits his material with a small scrap dealer. The small scrap dealer usually has a shack (cement rooms are a rarity) where he stores all scrap. He sorts out the scrap separating the newspapers, books, bottles etc. He buys the books at Rs 10 per kg from the scrap collector. He sells the books that can be resold to a large scrap dealer. The large scrap dealer usually has a larger store where books are separated on the basis of their physical condition. They are usually stacked and kept in an orderly manner. The large scrap dealer usually receives books (along with other scrap material) from several small scrap dealers at a price of approximately Rs 15 per kg. These three layers of scrap dealers have no knowledge about books. If price differences arise they are due to differences in physical condition. The Darya Ganj seller buys his books from these large scrap dealers at Rs 40 per kg. The scrap collector and the small scrap dealer usually do not trade with the Darya Ganj seller. This is because the scrap collectors do not have a shop or shack;

²³Pragati Maidan, Delhi is one such location.

²⁴The authors could not locate a container in Delhi. The account has been based on what the Darya Ganj seller told us.

²⁵The Darya Ganj seller has been added for completeness.

they are constantly on the move. The small scrap dealer is disorganised and acts as an aggregator of scrap. The Darya Ganj seller finds it convenient to engage with the large scrap dealers who are organised and have fixed places of trade.

4.2 Level Two

The Darya Ganj seller appears at this level. The Darya Ganj market and seller have been discussed in detail. However, at this level agents trade with each other. In the morning before buyers come in, the sellers visit other stalls and buy books. Sellers who buy from other sellers may have been busy during the week and unable to make purchases, they may also be interested in a certain book (or kind of book) or they could simply be in a good financial position and willing to buy books from other sellers. There is an active market within a market here. The Darya Ganj seller can identify other sellers. This phenomenon is interesting and will be discussed further in section 6.3.

4.3 Level Three

This level comprises of two categories –the ultimate buyer and scrap dealers. While the ultimate buyer does not demand attention, the scrap dealer certainly does.

4.3.1 The Ultimate Buyer

Since the 1960s, the Darya Ganj book market has served readers. Students across schools, the University of Delhi, book-stores and even book traders from south India scout the streets for books. This category can be divided into two sub-categories.

4.3.1.1 The Individual Agents: The Darya Ganj second hand book market started off primarily as an alternate to bookstores selling academic books. However, it soon spread to novels, magazines and even comics. Even today it predominantly serves the academic market. Students and other members of the academic community regularly visit the market which adds a factor of seasonality to the market. There are several business relationships that an individual ultimate buyer can have with the Darya Ganj seller. Some customers have been observed to use the market as a library; they buy comics and books on a Sunday and return the same next Sunday after the seller has taken his cut. However, this system only works for popular books and mainly comics.

4.3.1.2 Institutional Buyers: There are also some market-participants who buy books in bulk to sell in their stores during the week. They are primarily people who are involved in the book business. The defining characteristic here is that unlike elsewhere where books are bought and sold in bulk and traded in weight, here each book is priced individually. This is implied by the fact that books are selectively picked and are not picked by the bundle as observed elsewhere.

4.3.2 The Scrap Dealers

When a book is not being sold, the Darya Ganj seller has to decide how long to hold the book. This decision is based on several factors; some of them were discussed in the section on the First Hand Book sellers. When the decision to make books exit Level Two is made, the scrap dealer re-appears at Level Three. Here he is the last resort of the Darya Ganj seller. Books are often sold at a very cheap rate to the scrap dealer²⁶. So even though this sale is a 'loss' as compared to what he could have possibly made if those books were sold in the Darya Ganj market, it is still rational for him to sell the books to the scrap

²⁶One Darya Ganj seller told us that he sold 300 kilograms of books for Rs. 11 each to a scrap dealer. He said that if they were 'good' books they would have easily sold for Rs 25,000-30,000.

dealers as he recovers some portion of his sunk cost²⁷. Sometimes the seller might even break even or make a marginal profit²⁸. Since the goods traded in the Darya Ganj market are not homogenous, the outcome is highly subjective. Yet the Darya Ganj seller has a strong preference for this market. This fact can be substantiated by the absence of traders who buy books from different sources and then sell them to the scrap dealer.²⁹

²⁷The seller B (Case study) said that he bought the books for Rs 40 per kg. Hence he could have possibly got more than Rs 40 per kilogram in the Darya Ganj Market. He then made a loss of Rs 29 per kg(40-11). This loss is lesser than the effective loss of Rs 40 per kg. In addition to this there is also the cost of holding the books.

²⁸Another seller told us that the Darya Ganj sellers usually break even when they sell the books to the scrap dealers. Sometimes, he said, they even make a small amount of profit.

²⁹This again signifies that the risk element is prohibitory here. The expected value of a transaction is negative.

4.4 Trade Secrets at Darya Ganj

The supply chain presented in Section 4 is common knowledge amongst the sellers. Whether they are able to use those channels is a different matter altogether. For example there are some sellers who cannot source their supplies from containers due to cost concerns; other who do not use a certain source and some who do not buy books from scrap dealers because of quality concerns. However, within the general categories there is competition to procure books from the 'best' source. Often this means that if Seller A discovers or comes into contact with a certain source that is better than all the sources he has, and he realises that he has a competitive edge because of that source, he will keep the source a secret. Although this is intuitive, this adds another dimension to the knowledge problem. Knowledge of a certain source can bring strong gains to a seller. While selling techniques, book trends and even prices can be observed due to the nature of the market; sources cannot be ascertained. Sellers do not openly share this information. Then, within the supply chain there exists many smaller hidden links that serve the market. These links add complexity and misbalance in knowledge sharing in the market.

5. Case Studies

5.1 Seller A

Seller A is in his early 60s and was one to enter the market first. He used to own a bookstore earlier at Nai Sarak³⁰ but due to family differences he gave the shop to his brother. He came to the Sunday book market in the year 1965 when the market merely consisted of 4-5 booksellers. Seller A does not have any other job, he earns solely from the Darya Ganj book market³¹. He is involved in the Book Sellers Association which is formally called the Sunday book Bazaar Patri Welfare Association. The association comprises of 7 members. Seller A values the association for a number of reasons, the most important being protection of the booksellers from police harassment. He specified that the association was no longer active except in case of external threat to the market.

5.1.1 Books

Seller A has a wide variety of books in his stall. He specialises in children books. He has recently started dealing in religious and academic books. However, contrary to his view, we saw that his stall had a variety of books. One might even find an occasional novel or a recipe book. This sort of a discrepancy can be attributed to his disinterest in the market. His interest has mostly declined due to age. He feels satisfied with what he earns and is slowly reducing his business. He keeps his books at home as well as in the godown and is not even sure of how many books he has.

Seller A has a wide range of book sources. Till about some years ago, he mostly got his books from scrap dealers. He still continues to do so but in smaller amounts. The railways auction is another source that he uses. He does not go to the auction himself, but buys books from the sellers who go to the auction. Customers sell their books back to him. During his tenure, Seller A has also purchased books from American containers that are brought to India. He did not seem to like the source and, from what we gathered, has discontinued buying books from the containers altogether.

Seller A's buyers include individual customers and some book store owners. Most of the individual buyers are students. The book store owners mostly buy religious books in bulk. Since Seller A has been in the market for a considerable period of time, he has a number of regular customers. These customers are loyal and frequently visit the stall.

5.1.2 Knowledge

Seller A has been a seller at Darya Ganj for the past 45 years and knows the business well. He isn't well educated but knows the names of all popular authors. He is aware of all the books that are in high demand and attributes this education to learning. Observation, he felt was the biggest contributor to this learning. Facial expressions, interest levels and demand are some of the key things he notices. He also keeps an eye out for any new knowledge. This he explains in the context of academic books. New editions of certain books come out into the market every few years. Thus he makes sure that as soon as

³⁰Nai Sarak is a lane in Chandni Chowk which also sells second hand books. However Nai Sarak does not have street vendors, it has proper shops.

³¹His income source is questionable. On interviewing others, a conclusion was drawn that the book market business was not very profitable. On observing his style of living, one might conclude that he has an alternative income source.

the new edition comes out he prices the old books accordingly. Sometimes the CBSE³² syllabus changes; in that case the books with the old syllabus become rare. In such a situation he increases the price of those books.

Another way through which he gathered the information was by talking to the traders. This gave him insight into the different suppliers that exists in the market. According to Seller A, one also learns pricing knowledge by talking to other sellers. If another seller manages to sell the same book for a higher price, that is an indicator for him to increase the price of his book too.

Having owned a proper shop at Nai Sarak, Seller A has significant knowledge about the entire book selling business. He knew about the books that are sold in CP³³. He realised that it was important to price it less, otherwise the customers would stop coming to the Sunday book market.

Seller A emphasised that although he knows a lot about the books and the market, there is still a lot of guess work which takes place. Often he comes across books that he isn't aware of and prices the books after looking at a customer's interest in them along with taking a cue from the original price of the book and its physical condition.

5.1.3 Costs, Pricing and Profits

5.1.3.1 Costs: Seller A explained that apart from the cost of the book there are various other expenses. On an average he spends Rs 500 per day at the Sunday book market. The expenses include travel costs, *hafta*³⁴ to the police or the MCS, money to sweeper, etc.

Seller A explained that considering the number of books they have, it makes little sense to keep them all at home. Thus he keeps his books at a nearby go-down in sacks. The rent of storing each sack is Rs 10 per week. Every Sunday the books are transported from the go-down to Darya Ganj by cycle-rickshaws at the rate of Rs 10 per sack for one way. Thus seller A spends Rs 20 per sack per Sunday.

5.1.3.2 Pricing: Seller A explained that there were many factors that contributed to the pricing of a book. He often tried to follow a thumb rule of 50% of the actual price on the book. However, often various factors end up changing that rule.

The books from the railway auction are bought in sacks and there is no way Seller A can determine how many of those books will sell at Darya Ganj, at the time of auction. Thus the books which are not popular are priced at a lower rate. His motive is to make profit on the sack rather than on the individual book.

Another way that Seller A prices a books is by observing the customer. If the customer seems to be interested in a particular book he increases its price.

The time factor also determines the price of the book. If the book is not sold for a very long period of time, then he decreases it's price.

³²CBSE: Central Board of Secondary Education. The board decides the syllabus for most of the schools in India.

³³Connaught Place is a popular market in central Delhi. It consists of many street vendors who sell books. The prices at CP are more than the Sunday book market.

³⁴Hafta – meaning weekly, is a small sum of money which is collected by the government officials and the police on pretense of certain reasons. May times this sum of money is collected illegally. In the case of Darya Ganj the money is collected because the land on which the sellers sit belongs to the government.

Seller A explained that the books that were not sold for a long time were sold off to a scrap dealer because he felt that it was better to sell of the books as scrap than to keep them in the storage.

5.1.3.3 Profit: Seller A is well established in the market and given his sources and pricing strategy, he seems to be in a comfortable position. With age catching up, his activity in the market is decreasing. Although he refuses to acknowledge it, we observed that there is a possibility that Seller A has rented some of his space out. This was confirmed by other sellers in the market. This means that Seller A has a steady, constant flow of income from the market. He also has the privilege of having customer loyalty. Some customers of him have been visiting his stall for over a decade now. This adds to his stability in the market. Further, he has a strong reputation in the market and goodwill amongst the Darya Ganj sellers. To sum up, Seller A is comfortably placed in the Darya Ganj market though his age and health may not permit him to stay there for a long period.

Seller A sees himself as an old man who has seen the ups and downs of this business. With over 45 years of experience he feels that the reason he did not do very well was his honesty. He cites examples of big book store owners who made it big by fleecing the customers. He seemed to be very disenchanted with the book market. He has no interest in growth and wants to stop coming to the book market soon. Seller A is often accompanied by his wife to the book market for help. He feels he doesn't have the strength to come alone to the book market. However, his responsibility towards supporting his house drives him to Darya Ganj every Sunday.

5.2 Seller B

Seller B is in his early 50s. After finishing school, he worked as a labourer for a boiler and chimney firm in Delhi. The strenuous requirements of the job led him to quit. Through a friend, who worked in the book market, he managed to secure a job at a publishing and distribution book house. He worked as a peon there. His job including packaging of ordered books, procurement of book orders and delivery. He was paid Rs 200 per month in 1981 which was still below the market wage. His good work performance brought him a steady increase in the wage. Unfortunately soon after, the book house started doing poorly. The management had to decrease its labour force and minimise costs. Seller B along with some other peons was asked to quit. He asked the manager to give him some of their old books so that he could sell it to his friends at the Darya Ganj book market. The manager suggested that he sell them himself and that they could share the profit, thereby acting as an outlet for the book house at Darya Ganj. Seller B agreed and once he started working there and understood the market, he decided to quit working for the book house. He started searching for books, collecting them and selling them in the market on his own. He has been in the Darya Ganj market for 12 years now.

5.2.1 Books

Seller B does not specialise in any particular book genre. He has a wide range of books. These include novels, biographies and autobiographies, books on religion and spirituality, cookery, and classics. He started out with academic books, which he had some knowledge on. Through the years, if he came across books that he thought would have demand in the market, he picked them up³⁵. On Sundays, Seller B spreads his main books to fully display their covers. Alongside, he has a horizontal upright row of books that are all priced the same at Rs. 20. These books are generally of lower quality (condition) and not expected to sell. He told us that because they are not expected to sell, putting up a 'Rs 20 each'

³⁵ About six months back he picked up 20 copies of Tony Blair's autobiographical work, *A journey- my political life*. He expected the market to receive these favourably, however the market thought otherwise.

sign attracts buyers who would buy them because they are cheap (regardless of whether they need them or not). His sources include some previous contacts he had amongst publishers and distributors, scrap dealers and customers in the market.

Seller B had ample space to spread out his books in the space where he first set up. After a few months the police drove the sellers away from that area. He then approached another seller, who gave him space to set up in his own area³⁶. Seller B has been there ever since. This area is relatively small as compared to the other sellers and therefore cannot spread out his books to make their titles visible. This reduces the attractiveness of his stall and has adversely affected his sales.

Over the years, Seller B's book holdings have been strongly dependent on his capital³⁷. In times of financial distress, he has had to sell huge numbers of books to the scrap dealers. Further, Seller B does not keep accounts of the value of books he possesses. Over the past year his sales have decreased. Commensurately this has led to a decrease in purchases of books and this coupled with an increase in sales to scrap dealers has led to a dip in stocks. He now has approximately 4500-5000 books, which he stores at home and at a small go-down near Delhi Gate.

5.2.2 Knowledge

Seller B's was not ignorant of books when he first entered the Darya Ganj market. His work as a peon for the book house had helped him acquire basic knowledge on books. The process of procurement of books - wherein upon receiving an order the book house would send Seller B to purchase books that they did not have from other book houses - taught him to be familiar with the name of the books, authors and publishers. On these trips he also developed contacts. As time progressed and the book market trends changed, Seller B's effectiveness in selecting books has decreased. Now he purchases whatever is available to him and justifies this by saying that the market has very diverse tastes. He does not search for specific books which could be a reason why he does not specialise in any genre. Further since his knowledge of books is decreasing, so is his ability to correctly price a book³⁸. However there are some permanent processes/methods that Seller B uses to price his books. These will be talked about in the section on pricing. He does not invest in increasing his knowledge even though time is not a constraint.³⁹

³⁶They entered into some sort of mutual contract. Seller B refused to divulge the amount he paid to the other seller to use some part of his space.

³⁷Leading us to believe that the weaker a seller is financially, the more fluctuation there is in the number of books held. Seller A has had a steady (somewhat increasing) book holding. Seller C's books holdings have been much steadier than Seller B but more fluctuating than Seller A.

³⁸He told us of how once he had a book which had nothing but a bulb on the cover with the title of 'Lighting'. He thought the book was useless and had planned to sell it to a scrap dealer. However he put it out on Sunday. The first customer that came to his stall picked up the book and asked him how much it was for. Seller B, looking solely at the condition and size of the book quoted a price of Rs. 150. The customer bought it without bargaining. Apparently it was a famous book on lighting.

³⁹He does not work during the week.

5.2.3 Costs, Pricing and Profits

5.2.3.1 Costs

- Seller B stores his books at home and at Delhi Gate. Therefore he incurs certain storage and transport costs every Sunday. One gunny bag of books is stored for Rs. 10 and transported for Rs. 10 (one way) from the go-down. A major proportion of his transport expenditure is what he incurs when he carts books to and from his house. When he has a heavier load to cart, he hires an auto-rickshaw (usually the case). Sometimes he brings books on his cycle.
- In addition other costs that he incurs per Sunday are the sweeper's cost, the MCD fees, police and SHO *hafta* and additionally the fee that he has to pay the seller who has given him some of his space. In total Seller B incurs a little more than Rs. 500 per Sunday as fixed costs.

5.2.3.2 Pricing: Seller B does not have a systematic pricing process. However, there are some patterns that emerge in the way he approaches the market.

- He tries to make profit on bundles of books rather than individual books. This means that while pricing a book, he takes into account profit made on the other books as well. While selling the sixth book out of a bundle of 10, he will look at the net profit/loss on the first five. If there is a net loss, he will try to sell the book at a profit with an aim to cover the loss on the first five books. Hence his marginal decision while pricing a book will be guided by how the bundle that contains the book has fared in the market.
- In the case of expensive books (above Rs 500), he bases the price on the original price of the book.
- His circumstances also dictate how he prices his books. When he is in a financial crunch, he is willing to get 'rid' of his books at whatever price the customer is willing to offer. This means that in the lean season, he will try to sell as many books as possible not looking at whether he is making a profit or loss. He buys all his books with cash and there is some amount of capital locked in the process. In a crisis he will make distress sales, desperate to liquefy his fixed capital.
- Seller B also has a pile of books that are all the same price (Rs 20 each). These books have no perceived demand in the market⁴⁰. It must be noted that these particular books were not shifted into this pile from the main spread; they were bought and sold like this. They are arranged in a neat horizontal row. When we asked him why he did not spread them out like the others, he said that these books were not attractive⁴¹ and that the 'Rs 20 each' sign would be more attractive than the books themselves.
- Seller B is a talkative man. He is always trying to verbally rationalise his decisions. He uses this to much effect while bargaining with a customer. He pegs up prices for books that have dollar signs. He justifies this to customer's saying that these books are not printed in India and thus would be harder to find elsewhere. Religious books are often, if not always, priced lower so that they can be distributed easily. So when Seller B sells them above the price stated on the book, he explains to his customers how and why these books have prices that are below cost. This is a unique approach in the market; he explains the logic behind his pricing decision to the buyer, going into great detail.

5.2.3.3 Profit: Seller B has been fairing rather badly in the market. Over the period that we spent with him (3 weeks), he sold 650-700 kilograms of books to scrap dealers⁴². Scrap dealers are the last resort of any Darya Ganj seller. Very rarely will a Darya Ganj seller break even when he sells books to scrap

⁴⁰Based on his 'perception', taking into account the past demand for these 'kind' books.

⁴¹The books in the 'Rs. 20 each' pile were not of any particular genre, though a major portion of them were in Hindi.

⁴²On 28 June 2011 he sold 300kgs of books for Rs 11 per kg. He said that he made a loss of around Rs 6000 (assuming that these books were average books). If these books were 'good' they would have easily sold for around Rs 20,000 to Rs. 25,000.

dealers. Thus the fact that Seller B has sold quantities of this magnitude to scrap dealers is indicative of his dismal position. He says that the book market is highly uncertain. This is true, especially in his case. For one, his lack of knowledge and its diminishing nature (given the evolving market) put him in a disadvantageous position concerning pricing. Second, when he buys books he is only guessing that these books will be accepted in the market. Buying and selling then are really risky business for Seller B. He accepts this when he says, “This is business; it has its ups and downs”.

Today he does not have any means of discovering trends except for the ‘learning’ effect. Learning is a slow mechanism and does not always prove to be effective⁴³. Lack of knowledge has had visible effect on his outlook on the market. The books at his stall were obsolete, mostly on computer programming and networking. We spent hours at his stall sitting, talking and observing him; during all that time he never sold a single book⁴⁴ despite frequent visits by prospective customers.

Seller B has come a long way. The vagaries of the market will not take him down – at least we hope not. His case just goes to show the growing importance of knowledge in a mechanism like the market where large numbers of agents interact, each with their own evolving tastes and preferences.

5.3 Seller C

Seller C is in his early 30s. He manages two jobs. He works in the share market⁴⁵ during the week and works at the Darya Ganj second hand book market on Sundays. Seeing a profit opportunity at Darya Ganj, he entered this market in 2000. He was introduced to the market by an acquaintance. Prior to entering the market he studied political science at DAV College, Delhi. For 11 years now, he has stayed at the same spot.

5.3.1 Books

The first lot of books that Seller C sold in the Darya Ganj market was a bundle of books that he collected from college students. As time passed his sources diversified. He now collects books from schools, colleges and scrap dealers. The type of books that he deals in (academic books) has remained the same throughout. He is not averse to other genres and when he sees a profit opportunity in some other category he picks them up. The amount he is able to sell every Sunday has been decreasing over the years. In fact Seller C told us that over the last three or four years he has struggled to break even. The emergence of online bookstores⁴⁶, general decline in consumer interest and growing piracy⁴⁷ are some reasons he cited. As of July 2011 he holds books approximately worth Rs 50,000. He stores his books at his home, but keeps no track of how many books he holds. Book purchases are not done on a regular basis. Further, he does not have a fixed value or number of books that he places on display on Sunday.

5.3.2 Knowledge

⁴³Learning works with a lag. By the time trends are ‘grasped’ it is too late. The market is in a constant flux meaning that for availing the benefits of learning, it has to be quick and timely.

⁴⁴It seems plausible that the lack of knowledge could be dampening his entrepreneurial drive which in return could be further driving down his desire to obtain knowledge. This vicious cycle is probably the reason for his bleak financial position.

⁴⁵His precise job description was unclear. He felt highly uncomfortable talking about it.

⁴⁶Flipkart, India’s largest online bookstore (The Economic Times, 30 June 2010) started its operation in October 2007. As of July 2010 it was selling more than one book per minute. (Business Standard, 19 July 2010)

⁴⁷Seller C alleged that some ‘moneyed’ sellers at Darya Ganj were printing novels and selling them at cheaper rates. He said that in the first hand market Sidney Sheldon novels were available for ` 200 to ` 250. However some sellers were printing the same and selling ‘new’ novels at ` 70 each. The genuine second hand novels also sell for almost the same price. This has resulted in the ‘new’ novels crowding out the genuine second hand novels.

Prior to entering the market, Seller C had limited knowledge about the second hand book market or about books per-se. His knowledge was confined to his course books at college. The first time he bought books, he just purchased whatever was offered to him. Over time he started noticing the trends in the market. These trends include seasons in which a certain kind of academic book would sell, lean seasons, changing tastes concerning publishers and authors, etc. This 'learning' is primarily experiential and hence slow. The other sellers are of little help. However, he does have a good relationship with other more experienced sellers through which he is able to get little information. Seller C does not invest any money to increase his knowledge base about books although he is aware of the various mediums like the Delhi University reading lists, schoolbook lists, catalogues through which he could make more informed decisions. Lack of capital and time could be the constraint that he faces.

5.3.3 Costs, Pricing and Profits

5.3.3.1 Costs:

- The costs of setting up each Sunday amounts to Rs 500. This includes the MCD fee, the police *hafta*⁴⁸, the SHO *hafta*, the sweeper's fee, the transportation cost and the cost of food during the day.
- Seller C usually buys books at 25% of the real value of the book. However, this is highly variable. As mentioned earlier, his sources include the scrap dealer. Since the scrap dealer deals with books by weight, the weight of the book determines the cost price of each book.⁴⁹

5.3.3.2 Pricing:

- Seller C follows a rough thumb rule of pricing the book at 50% of the price stated on the book. He tries to maintain a mark-up of 100% over his own cost price. This again is variable and while his mark-up can reach 300% of his cost price (he buys a book for Rs. 50 and sells it for Rs. 150), he ends up selling books at cost or even below cost price sometimes.
- He prices books by observing a customer's response to a book. Along with that he also looks at the chances of the book being sold. For example, once Seller C managed to procure some notebooks from a certain school in South Delhi. This school had decided to get rid of these notebooks because they did not meet their standards. In Seller C's perception these notebooks were good and would sell out soon. He priced them at Rs 30 each and refused to bargain on the price. Although one odd customer walked away, throughout the time we spent at his stall (about 3 hours), the notebooks sold like hot cakes. Here, given his 10 years of experience, he understood that the market would receive the notebook well and hence stuck to the price. On the other hand, he allowed bargaining on books that were part of his main spread. Here along with other factors, the customer's desire for the book is what Seller C tries to judge. He looks at how long the customer lingers over the book, the appearance ('well' dressed), age, etc. Keeping these in mind, Seller C quotes a price and then allows the customer to either bargain or just decides to stick to it.
- The books that are not sold for two to two and a half months are sold to scrap dealers. These sell for around Rs 10/kg.⁵⁰

5.3.3.3 Profits: Seller C tries to cover costs on the bundle of books rather than just individual books. For example he buys 100 books by weight and allocates a certain cost to each. He will try to sell the 50

⁴⁸Although the SHO – Station house office or the Sub-inspector of a police station is part of the police force, there are two collections; one by the police and one by the SHO. Each collects approximately Rs. 100 per seller per Sunday.

⁴⁹Scrap dealers sales rates as of July 2011 are Rs. 40/kg.

⁵⁰We have come across scrap dealers who sell for 9, 10 and even 11 per kg each.

best⁵¹ books at a higher rate in order to cover the costs for the entire 100. Once this is done, he will approach the market with a more relaxed pricing strategy, allowing for more bargaining.

As mentioned earlier, over the last few years there has been a decline in the number and value of books held by Seller C so much so that he has found it difficult to break even. Interestingly, he firmly believes that this is not due to the increase in the number of sellers (thereby increasing competition). He says that competition has been taken care of by an increase in the number of buyers – a general expansion of the market. He is bothered by the increase in the size of the black market (piracy). This has led to a collapse in his profits. Until four years ago, the scrap dealers sold him books at much cheaper rates (Rs 20-25 per kg.) and he was able to sell them at Darya Ganj with a good profit margin. Today the scrap dealers have increased their prices to Rs 40-45 per kg and he is unable to sell them in the market. He says that the Darya Ganj trade is only a side business for him and he might shift out of the market if these conditions persist although he hopes for a renewal in business conditions.

To add to this, he makes a definite loss on the books that he sells to the scrap dealers. These books do not have current value in the market and hence holding them requires additional storage and transport facilities which translate to additional costs.

In its totality the situation seems bleak for Seller C, yet his entrepreneurial spirit and financial circumstances have not allowed him to give up.

⁵¹*'Best' being subject to Seller C's perception, taking into account demand, condition and edition (in case of academic books).*

6. Knowledge in the Darya Ganj Market

6.1 Darya Ganj and the Market for Lemons

Seller B is characteristic of a significant proportion of the Darya Ganj book sellers. This group has a strong information deficit. They do not have access to information about market tastes, except through the process of learning. Although learning has its advantages, it is a slow process⁵². Since the book market is one subject to high variability because of a constant flux in tastes, learning does not prove to be very useful.

Akerlof posited the following when information about quality is asymmetric; the seller has an incentive to market poor quality goods as the returns for good quality occur to the entire group whose statistic is affected rather than the individual seller. As a result there is a reduction in the quality of goods and also in the size of the market.

The Darya Ganj seller faces a double information asymmetry here. First, while dealing with level one agents, especially in the case of previous customers and first-hand suppliers, he has less information about the book than them. Second, while dealing with level three-the final buyer, the customer presumably knows more about the book than the Darya Ganj seller. Given this double information asymmetry how does the Darya Ganj seller exist?

Let us analyze the interaction at these two levels separately.

6.1.1 Level One and Level Two

Level one has varied information distributed across the agents that comprise it. In the case of railway auctions and containers, both sides have symmetric information. On one hand the scrap dealers usually know less about a book and on the other, the customer and first-hand book seller (publishers and distributors) know more about the book than the Darya Ganj seller. Although scrap dealers, railway auctions and containers are all interesting, we will stick to analysing the customer and first-hand book seller's interaction with the Darya Ganj seller.

The distributor usually has a large quantity of books to dispose. The distributors can sell them to bookstores, but they only buy in small quantities. The Darya Ganj seller is willing to buy these books because of the cheap prices and, given their relatively new condition, is hopeful that they will sell easily and at a considerable mark-up. Mostly, the books are bought in bulk, by weight. Sometimes they are bought at a certain price for the complete bundle. This price is not representative of the summed value of the price of each book contained in the bundle, but is a figure bargained for, taking into account the general condition of the bundle of books⁵³. It may be argued that, in effect, the price of this bundle can be represented in terms of the price per book by simply dividing the price of the bundle by the number of books. This is not entirely true because the price is indicative of the value of the books in the bundle but is in no way a precise summation of the values of the books contained therein.

⁵²Seller B, even after 12 years of being in the Darya Ganj second hand book market, has limited information that is relevant. Seller A, on the other hand, seems to appear to predict trends better.

⁵³This is beneficial to the first hand book seller as the bundle sells for more than what it would have sold for if he had sold it by weight. Darya Ganj sellers only allow this if they think the books have strong market value.

When the Darya Ganj seller is buying books from a distributor, he is not looking at the condition of each book, drawing up some measure of its value, summing these values and arriving at a price⁵⁴. Instead, he just looks at the bundle and quotes a price that he will buy it for. This is after looking at some representative books in the bundle. This could be books on the top or the ones in the best physical condition.

Keeping these facts in mind, information at two levels need to be discussed. First, the distributor's knowledge of the book does not really count as both the distributor and the Darya Ganj seller know that the former is selling the books to the latter as a last resort⁵⁵. His next option would be the scrap dealer who buys books by weight at even lower prices. Second, the Darya Ganj seller's information about the book will typically be less than the distributor.

What really matters here is 'effective' information. The Darya Ganj seller and the distributor both know the reason for this exchange. The distributor cannot sell these books to other sources, the only sources that will accept these books are the Darya Ganj seller⁵⁶ and the scrap dealer. Thus it is common knowledge that the distributor really does not have a choice when he sells the books to the Darya Ganj seller. This gives the Darya Ganj seller a superior bargaining position. So even while there may be an asymmetry with regard to the information about the book, information is symmetric when it comes to the reason for the exchange making it the deciding factor for the relationship under discussion.

The knowledge problem is superseded by the lack of an outsider option and the negative insider option⁵⁷. This gives the Darya Ganj seller a good deal, and at the same time the distributor manages to sell the books and not bear the costs of holding them⁵⁸. This is substantiated by the observation that it is usually the distributor who contacts the Darya Ganj seller when he wants to sell his books.

Assuming that there was some quality measure that the Darya Ganj seller measures the books by (the most plausible seems to be the physical condition of the book) and that based on that measure the seller judged the average quality of the market, even then the market does not fail. This is because even though the market contains many buyers and sellers, exchanges are settled on a one-to-one basis. Consider Seller B. He has some friends who are distributors. These distributors contact him when they need to sell books. Hence although the market is vast, exchange is limited to personal contacts⁵⁹. Once personal contact has been established, the reason for exchange is known. Further, Akerlof's problem was one where "the returns for good quality accrue mainly to the entire group whose statistic is affected rather than to the individual seller". However, this condition is not satisfied because of the way the distributor-seller market is arranged for second hand books. Not only does good quality of an individual seller not affect the entire market, it does not even have an effect on the individual seller's price.

⁵⁴The authors emphasize this because almost always the Darya Ganj seller may be unaware of the quality/condition of some of the books contained in the bundle.

⁵⁵Technically the scrap dealer is the buyer of last resort, but in this transaction the Darya Ganj seller is strictly preferred to the scrap dealer. The distributor will go to great extents to make the sale happen.

⁵⁶The scrap dealer buys books at scrap rates, thus the distributor will want to sell the books to the Darya Ganj seller.

⁵⁷The outsider option for the Darya Ganj seller is selling the books to the scrap dealer. Although the scrap dealer will be ready to buy all the books, they will only be bought at a lower price. The insider option: The Darya Ganj seller has a negative insider option. He is gaining a negative utility from keeping the book in his storage. One, it costs to keep the books. Two the books are eating up space that he can use to keep newer books i.e. the opportunity cost of these books are large.

⁵⁸The distributor is making a loss on the books when he sells them. He does not have any other option.

⁵⁹Thus the emergence of 'trade-secrets'.

A different but not unrelated question that arises then is, why is there a difference between the price at which the Darya Ganj seller buys from the distributor and the price at which the scrap dealer buys from the distributor? A scrap dealer has close to negligible knowledge of books. The only factor that affects the price of the books is weight. Quality in terms of physical condition has marginal effects on the price that a scrap dealer offers to buy the book⁶⁰. On the other hand, the Darya Ganj seller has more knowledge about books than the scrap dealer but, presumably, lesser knowledge about these books than the distributor. The Darya Ganj seller would pay more for the same books than the scrap dealer⁶¹. Why does the Darya Ganj seller pay more? Does the additional knowledge that he possesses give him a price disadvantage? At first glance, the solution to the question apparently lies in the argument discussed prior to this. The scrap dealer is the distributor's last resort. He knows this and hence will only buy books at a lower price than the Darya Ganj seller. This argument uses circular reasoning. Its logic being, "the reason why the scrap dealer buys books cheaper than the Darya Ganj seller is because the Darya Ganj seller is above him in the distributor's preference ranking. This superiority of the Darya Ganj seller is because the distributor can sell books to him at a higher price."

Let us look at this puzzle from the scrap dealer's point of view. As mentioned earlier, the scrap dealer knows nothing about the books. He does not really care about the re-sale value of the book. His main occupation is collecting scrap and selling it for recycling. Further, books that buyers decide to buy get sold but it isn't the only reason for a scrap dealer's existence. The scrap dealer's chief source of income is from getting used material recycled, one such material is old books. If the old books sell, the scrap dealer has a definite bonus, otherwise he still makes a certain mark-up on the books when he sends them for recycling. Hence the scrap dealer will always buy books at scrap rates, no matter what. When he does buy books and they are in really good condition, he might buy them for slightly more than the normal rate. Turning to the Darya Ganj seller, he buys books to resell them. The distributor knows this and hence also knows that his opportunity cost is higher for the transaction. The distributor can be amongst the cheapest source for the Darya Ganj seller. Contrast this with the scrap dealer's fairly low opportunity cost. The knowledge that the distributor has, that pertains to their opportunity costs is what gives the scrap dealer an advantage over the Darya Ganj seller. Hence the scrap dealer and the Darya Ganj seller are charged different prices by the distributor.

6.1.2 Level Two and Level Three

In this section we discuss the pricing process involved in the interaction of the ultimate buyer, which is the customer and the Darya Ganj seller. The customer, we assume, knows more about the book that s/he has chosen to purchase than the Darya Ganj seller. The customer has some reservation price, which more often than not is below the price stated on the book⁶². The Darya Ganj seller also has a reservation price below which he will not go, this in most cases is the price (or slightly higher) that the book is procured at⁶³. When posed this problem, Akerlof started out by asking why the prices of goods in second hand markets fall. He went on to show that it is asymmetric information relating to quality that lies at the root of the fall. However, here we observe otherwise. The price fall at this level is because the Darya

⁶⁰The prices of books in good condition would go up to Rs 11 per kg from Rs 10 or 9 per kg.

⁶¹Distributors rarely sell books to scrap dealers; hence this argument is a hypothetical construct. It is not based on observation. However, we did receive information that there are some scrap dealer who have procured books from distributors in the past at the same prices at which they buy it from other sellers – Rs 9/10 per kg.

⁶²⁶²The fact that the customer has come to a second hand market is a signal that the customer has a reservation price that is below the price stated on a book.

⁶³There are some cases where the Darya Ganj seller does not have a reservation price. This takes place when the book has been held for long or is of bad condition. The Darya Ganj seller is willing to sell it at any price.

Ganj seller acquires the books by weight. He sells them individually, pricing them based on some thumb rules. The mark-up is then over the initial price, where the book is judged by its weight including a few other factors. Since the base price is significantly lower than the original price of the book, the price the book is traded at is, in general, low. For the Darya Ganj seller to remain profitable and hence exist, he must price the books above their cost price. This is fairly easy as now he sells the books individually. The seller tries to extract maximum surplus by using the thumb rules. For instance, Seller A has over the course of 45 years developed a strong sensitivity to a customer's eagerness to buy the book. When the customer is eager, Seller A will not go below a certain price. The customer haggles and finally decides to buy the book. Both the customer and the seller benefit from the exchange. The seller has made his mark-up while the customer derives utility from the book and from the fact that he has acquired the book at a cost that he could not have got anywhere else.⁶⁴

Here too we see that the nature of the market has provided a way around information asymmetry. The Darya Ganj seller buys in bulk and sells each book separately⁶⁵. One might be rightly concerned about the distributional aspects of the exchange. The fact that the Darya Ganj seller does not have as much information about the book as the customer does, gives the latter a stronger bargaining position. The seller survives though, charging a mark-up over the cost price.

6.2 Customer Re-sales and the Darya Ganj Market

One of the agents at Level one is the customer. For the purpose of clarity, we will assume here that all individuals who visit the Darya Ganj market are customers. A subset of these individuals are those who sell back old books to the Darya Ganj sellers. The books are diverse in content, but a large proportion of these are academic books. When books are sold back, their price drops considerably even when quality is kept constant. Akerlof's reason for a drop in price was that after the owner of a certain commodity has possessed that commodity for some period of time, he forms a better idea about the quality of that particular commodity compared to what he had previously. He is able to assign a probability to the event that the commodity is a 'lemon'. If good and bad quality commodities sold for the same price, then it would be rational to trade a lemon at the price of a new good and buy another good, at a higher probability that the commodity will be of good quality and at a lower probability of it being of bad quality. Thus the owner cannot receive the true value of the commodity⁶⁶. When our problem is applied in this context; we need to define what we mean by the quality of a book. Quality of books, at-least in the Darya Ganj market is strongly based on the physical condition and its edition (in the case of academic books). When books are sold by the Darya Ganj sellers, books in good physical condition sell for more than the ones that are in poor physical condition. While buying back the books, the Darya Ganj sellers use the condition of a book as an indicator to judge its price. This quality statistic, i.e. the physical condition of a book, is observable both to the Darya Ganj seller who is buying the book as well as the customer who he is selling the book to. Yet, it has been observed that the price of a book when being sold back to a Darya Ganj seller falls more than what can be accounted for by the change in the physical condition of the book. Why then does the price fall?

⁶⁴One often hears reports of how someone acquired valuable books at 1/4th or even 1/5th the original price.

⁶⁵Seller C told the authors that sometime the mark-ups are as high as 200-300% of the cost price of the book.

⁶⁶Other considerations are taken into account too. These include the original price of the book, the time period for which the book is held etc.

The Darya Ganj seller buys books from other sources by weight or in bulk⁶⁷. This causes the prices of the books purchased from other sources to fall. Thus the Darya Ganj seller will not accept books at higher prices than what he normally buys them at. The customer will only receive a fraction of what he originally bought the book for.

It is interesting to note that the Darya Ganj seller does not take into account other characteristics of the books. Even books that are popular in the market are bought at a much lower rate than the original price⁶⁸.

Another possible explanation could lie in the nature of the market. Seller A had in passing, remarked that the reason why the Darya Ganj market existed was because of its cheap prices. He had responded to our question on why the Darya Ganj seller sold books at such low rates when other street book sellers (for example, the sellers at Connaught Place) sold books for about twice the price. Could it be that the very reputation of the market being a market where books sold for cheap has, in fact, driven the Darya Ganj sellers to buy and sell at cheap prices? Could the fact that customers who want to sell their books back only receive a minor fraction of the original price be because the Darya Ganj market has always bought books cheap because they sell cheap?

6.3 Inter-Seller Trading at Darya Ganj

There are several sellers who buy books from other sellers at Darya Ganj book market. This phenomenon is interesting as there are no 'intermediaries' who are arbitrageurs. It also needs to be kept in mind that this market is on one street with the stalls adjacent to each other. Now, for the purpose of analysis, assume that there are two mutually exclusive groups of sellers at Darya Ganj. Type A sellers buy books from Type B sellers. The puzzle that arises is:

At the point in time when the Type B seller does in fact sell a book to the Type A seller, what makes him do it? Given that he is a rational agent, what makes him sell the book at a specific price knowing that the book will be sold for a higher price?

Let X be a type A seller and Y be a type B seller. When X approaches Y to buy a certain book or a range of books, then X attaches a certain positive probability to the sale of the book(s). It has been observed by the authors that X always chooses books while buying from Y⁶⁹. Even if the books are bought in bulk, each individual book is hand-picked. From this it can be reasonably inferred that X has some basis for his expectation. This basis is subject to his interpretation of the trends and tastes of the market. At first this might seem to be a problem of asymmetric knowledge. Could it be that X knows something about the market that Y does not?

This does not seem the case when the exchange actually happens. For one, the fact that X approaches Y for the book and that the exchange is taking place, is a signal to Y that the market values the book more than Y values the book. Secondly, X's interpretation of the value of the book in the Darya Ganj market is

⁶⁷When books are bought in bulk their price falls significantly. The per book cost almost amounts to the same in the two cases. The NCERT Mathematics Textbook for class X approximately weighs 500-600 grams. Hence if bought in weight it would cost around Rs 20-25 per book (the scrap dealer sells books to the Darya Ganj seller at Rs. 40/kg). A seller at the Darya Ganj market bought the same book for Rs. 25 from another seller. This is more than what he would have paid a customer. Hence the two amounts are almost equivalent.

⁶⁸Example, novels by Jeffery Archer.

⁶⁹This is unlike the other sources, where books are mostly bought in bulk. There the books cannot be chosen.

subjective. A Darya Ganj seller's expectation of the market can be based on assumptions that might not be objectively true⁷⁰.

However let us abstract away from the second argument for now. Suppose we believe that X has some superior knowledge of the market. He knows that a certain book is valued more than what Y is selling to him for. Also assume that Y knows that X has superior knowledge of the market⁷¹. Should not X approaching Y itself be a signal to Y that the book is valued more? When Y knows that after X has bought a book, he will definitely sell the book for more than Y's selling price (to X), why should X ever sell a book to Y⁷²?

This can be best demonstrated with the help of an example.

Suppose seller Y bought a certain book for Rs 25. He places the books on display and the price that he quotes is Rs 75.

Consider Y's decision. He can sell the book at the Darya Ganj market for Rs 75 with a certain probability p_1 . However if he is not able to sell the book at Darya Ganj the only alternative is to sell it to a scrap dealer. Assume that the book weighs 1 kg and that the scrap dealer buys the book at Rs. 10/kg. His expected gain can be characterised by the following equation

$$(75-25)p_1 + (10-25)(1-p_1)$$

Or $55p_1 - 15$

where, p_1 is the probability that the book will be sold in the market for Rs 75

Y will be indifferent between keeping the book and selling the book to a scrap dealer when,

$$55p_1 - 15 = 0 \text{ or when } p_1 = 0.23$$

For values of p_1 greater than 0.23, Y will keep the book with him and not sell it to a scrap dealer (A)

Now suppose X approaches Y and asks him to sell the book to him. At this point Y's decision is essentially between the following:

- a) Take this approach by X as a signal that the market values the book at more than Rs 75. He may decide to refuse to sell the book to Y and raise its price⁷³, in an expectation that the book will sell. Let this raised price be Rs 100 and the probability that it will sell be p_2 ⁷⁴. If he does not manage to sell it, he will make a loss of Rs 15.⁷⁵
- b) Sell the book to X at Rs 75. He loses the additional surplus that could possibly be his if he had done (a). However here he sells the book at a definite profit of Rs 50.

Consider action (a),

⁷⁰Seller B's assumption of the sale of Tony Blair's biography is an example. He believed it would sell because Tony Blair is famous. Thus his assumption that famous individual's biographies sell at Darya Ganj is not what the market thinks.

⁷¹This isn't an altogether strong assumption. The authors observed that more often than not experienced sellers bought books from new, young sellers.

⁷²Here it may seem that we are assuming that Y knows that X is a Darya Ganj seller. This is not an assumption per-se. The sellers know each other. This is because their stalls are usually close to each other and local laborers or the sellers themselves carry the procured books from one stall to the other.

⁷³If he doesn't raise the price, we are back to the previous case.

⁷⁴ P_2 is strictly positive.

⁷⁵He will have to sell it to a scrap dealer. Assume the book weighs 1 kg and the scrap dealer buys at Rs 10 per kg.

Y's expected gain if he does (a) will be

$$(100-25)p_2 + (10-25)(1-p_2)$$

or $75p_2 - 15$

For Y to choose not to sell, his expected gain should be greater than zero.⁷⁶ Therefore, $p > 0.167$. At $p = 0.167$, Y will be indifferent between (keeping and) selling the book at Rs 100 and selling the book to the scrap dealer(B).

From (A) and (B) it follows that once X approaches Y for the book, Y can interpret this as a value signal. With the value of the book now higher than before, Y will keep the book even for a lower (expected) probability of it being sold. This is the standard return-risk trade off. With higher returns, through X's signalling, Y will be willing to accept a higher risk⁷⁷. Thus it appears that Y should have an incentive not to sell the book to X. This is because earlier when the break-even probability was 0.23, Y held the book. After X entered with his signal, Y's break-even probability of holding to sell at the Darya Ganj market is even lower. Hence Y should hold on to a book.

The problem with the argument above is that we have only taken the scrap dealer's prices as the opportunity cost of holding and selling the book at Darya Ganj. When X approaches Y, not only is X bringing a value signal, he is also (and probably more importantly) bringing with him a significantly higher opportunity cost to holding and selling the book at Darya Ganj.

Consider action (b),

Here Y receives a definite profit of Rs 50 by selling the book to X. He 'loss' would amount to Rs 25 if he had kept the book and managed to sell it for Rs 100 later to a general customer. Taking this into account, his return then is

$$50 - (100-25) p_3$$

where p_3 is the probability of the book being sold in the Darya Ganj market for Rs100.

Note here that his decision is different from the previous two cases. Here his decision is between getting an assured Rs 50 from the Darya Ganj seller and keeping the book to sell in the Darya Ganj market with a certain probability attached to it.

In this case, break even $p_3 = 0.67$. This means that for Y to keep the book and not sell it to X, he should expect the book to have at least a 2/3 chance of selling. That is quite a jump from our previous probabilities. A Darya Ganj seller should then in most cases be willing to sell books to another Darya Ganj seller. This is in conformity to what Seller A (from the case study) says is the case and also what we observed in the market. Both the sellers that work during the week and those who don't usually sell books when approached by another Darya Ganj seller. This shows that for both the categories, in spite of having different degrees of risk aversion, the opportunity cost of keeping the books is too high to

⁷⁶At zero Y will be indifferent.

⁷⁷Note that the risk or probability of the book being sold does not actually change. Here Y will accept to keep the book and want to sell it at Darya Ganj even if, hypothetically, the book had a lower probability of being sold.

permit them to abstain from inter-selling. Further, the books are sold even at a cheaper price when sold to another Darya Ganj seller⁷⁸.

This raises the issue of signalling as a tool of enhancing a seller's effective information⁷⁹ in a market. When signals increase effective information (via the signal) it might also lead to an increase in the opportunity cost of changing the decision (based on the increased effective information). In such situations, signalling will not lead to an increase in effective information if the opportunity cost of accepting the signal (an increase in the effective information) is outweighed by the benefit of a decision based on the original decision set. Simply put, signals might not always lead to an increase in effective information.

⁷⁸*This shows how high the risk premium is.*

⁷⁹*We define effective information as the part of information on which an agent's decision is based. Contrast this to information as a broader term, which includes both effective and non-effective information.*

7. Conclusions and Extensions

The Darya Ganj Sunday book market is an informal market with its own peculiarities. Its location, supply chain and reputation have contributed to its existence for over half a century now. It is a free market where agents plan, spend and invest without external interference to the pricing process. This adds attraction to the market for the researcher. We also looked at the human element in the market, studying three different individuals. These individuals are from different backgrounds- educational and financial. Starting from them, we saw different mechanisms of how knowledge spreads or remains stagnant in the market. Further, we now know how knowledge works in the market. It has been shown that greater knowledge brings greater returns, not only to the seller but possibly to all the sellers when each one observes the pricing a books by other. The market has gone further and shown that, at times and in some transactions, knowledge about the good being traded may not be as important as the knowledge on the transaction itself. Supply chains and market structure is as important as the good itself. All relevant knowledge may not affect one's decision. Knowledge in the form of signals may sometimes be ignored when expected gain from accepting the signal is outweighed by the gain of basing the decision without taking the signal into consideration. This is the first possible extension of the paper. Are signals always accepted? Even though signals are identified and a future profit is expected, it may be completely discounted. Derived from this, a larger, deeper question is one of information on which the decision is based. When a rational agent makes a decision, he might not necessarily base it on all relevant information. It could also possibly be the case that one part of his information set might supersede the other part, making the latter useless to the decision maker.

In the course of our research another theme that has come up is the nature of markets. Each market has its own idiosyncrasies. The Darya Ganj market has proved to be an example. This market solves a major chunk of the problems caused by unevenly distributed knowledge by the trade relations and the nature of exchange. This raises the second extension of the paper. The way an exchange takes place and the way goods are exchanged is as important as the good in question. What are some general exchange mechanisms that diminish the importance of knowledge of the good itself? Here we are not referring to market-enabling norms but rather to the exchange of goods itself.

The third extension is derived from the first and is highly speculative. What if the signal was accepted and the seller delayed the transaction? This raises the interesting possibility of bargaining revealing information under conditions of asymmetric information. Bargaining essentially is an information revealing mechanism. What we refer to goes one step forward. Under extreme uncertainty, as is present in the Darya Ganj market, is it possible that when two agents interact, one acquires knowledge from this transaction and then uses the same on a third agent. Samuelson and Muthoo show that bargaining under asymmetric information leads to inefficient outcomes. This is true when the first two agents interact, the asymmetric information causes the exchange to collapse but this maybe efficient for the second agents wherein he uses this information to correctly price the book while dealing with the third agent (the customer). Alternatively, the first exchange is one of information extraction by bargaining, this extract is then used in the second transaction to maximise profits.

The Darya Ganj market also displays how each seller deals with knowledge problem in his own personalised way. Trade relations are not free of personal relations. Hence while dealing framing policy for a market, especially in countries like India; it is imperative that the cultural, social and economic aspects of that market be taken into consideration rather than adopting a blind blanket approach.

Appendix A1

Book stall	Space-rating	Type of books	Number of books	Price/ price decisions	Other information
1	Medium	Only magazines	250 +	Rs 20/ 30 (Indian)	<ul style="list-style-type: none"> - Has only magazines - Has a godown of 50,000 magazines - He sells the rest at other places. The put up the Sunday stall only to get rid of the old magazines - Indian magazines are sold at a cheaper rate - In business for the last 10 yrs
2	Large	Hindi novels Misc English Novels	240 150 150	Rs 20 Rs 80/75 Rs 30	<ul style="list-style-type: none"> - Decides the price of certain books based on the price written at the back - Bargained and brought the price down due to the rain - Bought Hindi books from other book stalls. This could also mean that some book sellers would like to stick to a certain type of books only
3	Medium	Children books Misc	-1000 -200	Rs 10/20 Rs 100/200	<ul style="list-style-type: none"> - Followed a thumb rule of 50% - Decided the price of the misc based on the dollar sign. He knew the conversion rate of the dollar - Earned approx Rs 1500 –

					2000 on a good day - Didn't change price depending on the season - Paid approx Rs 500 Per day as rent
4	Medium	Academic books	400	50% (Discount) 30% (Discount)	- Used books sold at a 50 % discount - New books sold at 30 % discount - Gave a bigger discount to shop keepers / sellers who sold books in bulk.
5	Medium	All types Academic Children books Magazines	3000-4000 300 100 100	50 % (Discount) Rs 20/30 Rs 20/25	-500 – 700 books left due to rain - Sold the books at 60% discount if their condition was bad -Owner of the stall for the past 25 yrs
6	Small	Academic Hindi	100 200		- Owner of bookstall for the past 10 yrs - Got the books from the railway auction and the American container
7	Large	Academic Novels (second hand)	5000	50 % (Discount) 30 – 35 % (Discount)	Price was decided on numerous factors such as: <ul style="list-style-type: none"> • author, • publisher, • hard bound vs soft bound, • condition, Learning
8	Medium	Academic + Others	7000-8000	No thumb rules, on the basis of consumer's	In the market for 28 years

				eagerness/re sponse	
9	Small	Academic	No count	50% or less than 50% discount	- In the market for 18 years - Has info of books - Only DG books
10	Small	Academic	2500- 3000	- 50% discount - Bad condition sell to scrap dealer	- 15 years in market - Only DG, no other work
11	Medium	Academic	500	Edition, condition, demand	- From 1992 - Shop during week
12	Large	Small Academic section, Misc. Books	-2500 all -500 academi c	- 50% discount - 75% discount - Hindi 30% discount	- Books not sold are sold to scrap dealers, no loss - From 1990
13	Large	- Academic: Engineering and Medical	1000	Profit but no less (as long as he's making profit)	- 15 years - Job during week
14	Large	Academic : Medical, management, Engineering	1000	- Engineering: 60% - School: 50%	

Notes:

1. The space ratings are an approximate value. Since we did not have a fixed measure to work on, we used the first stall as a basis for the others. The first stall was allocated a medium size, this

- was in general observance of the market. The other stalls were judged relative to the first stall. It is true that these judgements are subjective; however, we feel they are sufficiently indicative.
2. One might notice the apparent discrepancy between the number of books and size of the stall. In many cases, small stalls have more books than the larger stall. This is true because many of the large stall owners chose to spread out their books rather than stack them up like the small stall owners.
 3. Size of the stall is a better indication of a seller's financial position in the market than the number of books held at the stall.

Graphical Analysis of the Survey

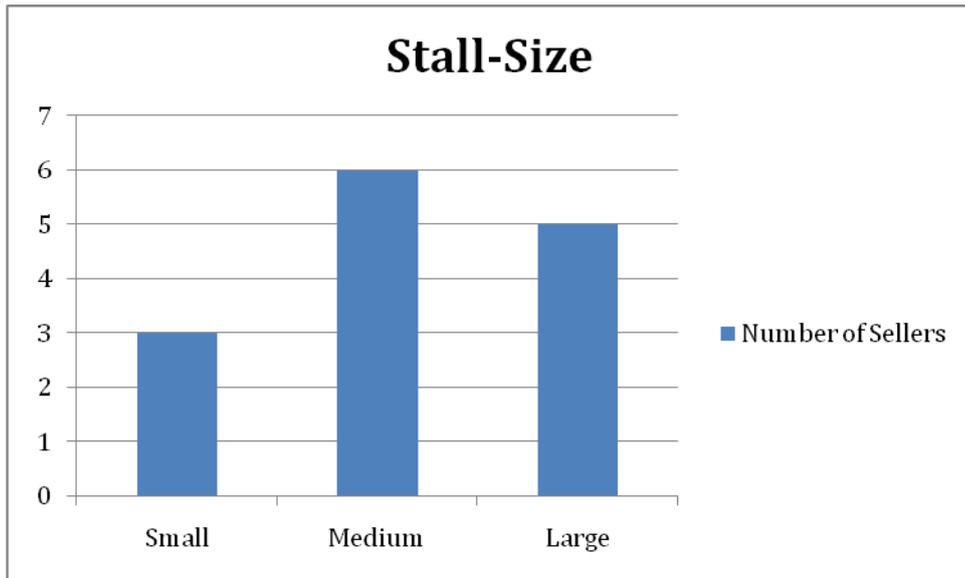


Figure 1: A1

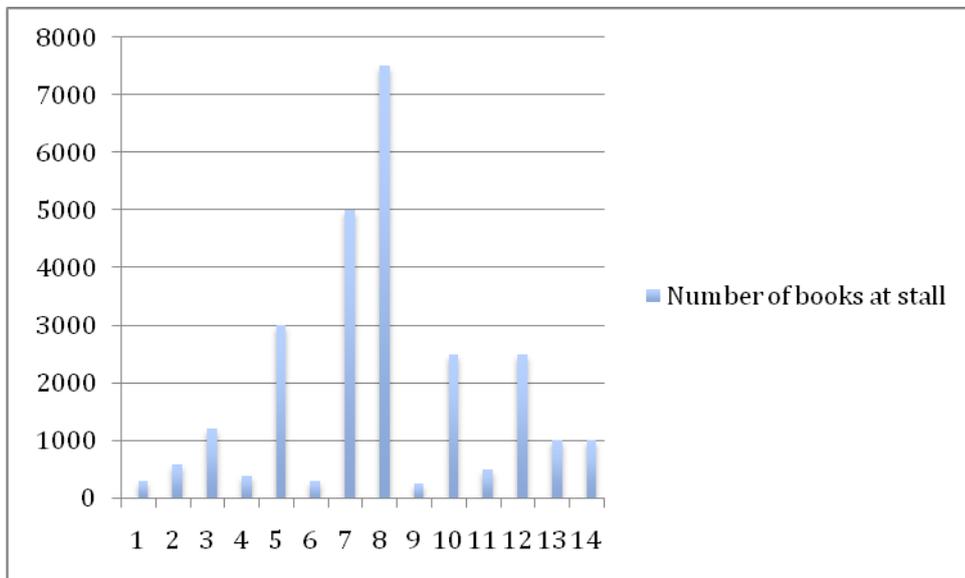


Figure 2: A2

Number of books at each of the 14 stalls

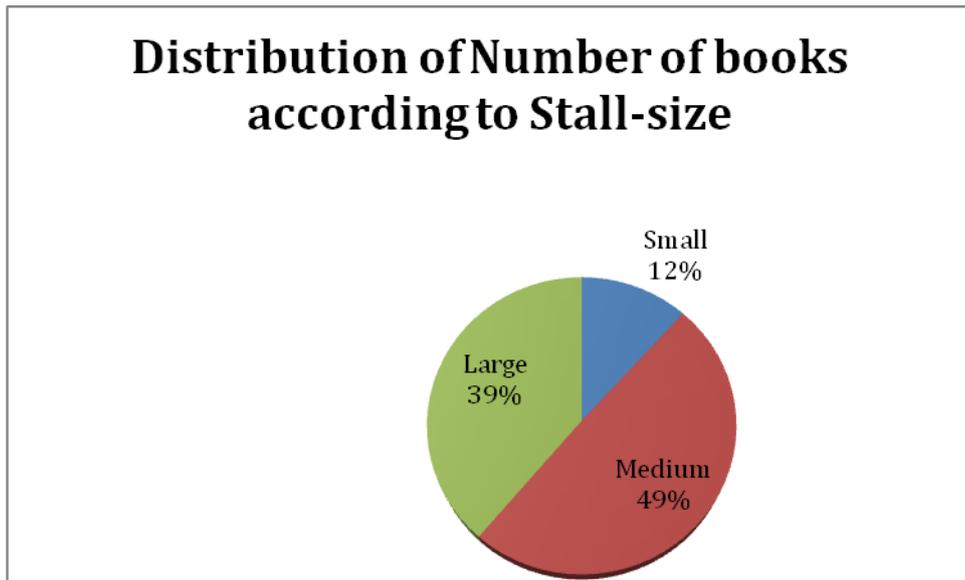


Figure 3: A3