

## **Policy Implications for Markets with Incomplete Information: The Case of Labelling for Genetically Modified Products**

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Policy makers have long recognised the economic and political constraints in executing “good” environmental policy. In short, the critical components being the definition of “good” and the efficient implementation of the policy. Moreover, the changing consumer preferences over environmental goods has rendered the accurate determination of the normative issues associated with determination of “good” policy itself difficult, let alone the enormity of the task of implementing it.

The domain of environmental policy in general can be put in the framework of economic analysis of choice. Moreover, the relatively new paradigm of thought in economics of endogenous preferences in asymmetric information models, recognises not only the strategic interdependence amongst agents faced with related choice problems, but also that the choices themselves are impacted by the behaviour of others. This complicates the environmental policy debate, as consumer preferences for environmental assets change, at least in part, due to the policy imperatives of the day. We explore the implications for environmental policy setting in light of these endogenous preferences, highlighting the role of information flows in the case of labelling genetically modified products. The model explores explicitly the political economy of the labelling game.

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