

- Chapter 3
- Financial intermediation - primary role for moving funds from lenders to borrowers.
- Transaction cost - time/money spent in carrying out financial transactions.
- Economies of scale - reduction of transaction cost as the scale of transactions increases.
- Liquidity services - services that make it easier for customers to conduct transactions.
- Asymmetric information - when one party does not know enough about the other party to make accurate decisions.
- Adverse selection - problem created by asymmetric information before the transaction occurs. When one party to a transaction has information about hidden characteristics and takes economic advantage of this information by making an agreement with less informed parties.
- Moral hazard - problem created by asymmetric information after the transaction occurs.
- Economies of scope -