

# “Market Exposure, Civic Values, and Rules”

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## Abstract

Does market exposure shape civic values and rules that constrain opportunistic behavior and foster generalized cooperation? What are the mechanisms underlying this effect? Using a natural experiment on market location from Ethiopia, I show the further the individuals are from markets the lower is their civic value and likelihood of forming rules. These results arise because market failure from asymmetric information and absence of third-party enforcement engenders a cooperation problem, to alleviate which, societies develop different kinds of exchange structures. In areas further away from markets, eponymous exchange and repeated interaction foster cooperation. In areas near markets, impersonal and ephemeral exchange with strangers creates a demand for civic values and rules, which together with community sanctioning foster cooperation. Individuals acquire heuristics from their exposure to different exchange structures and apply these to similar domains to reduce cognitive dissonance. Distance from markets without asymmetric information has no effect on civic values and rules.