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Hybrid Exchange Forms between Gift and Commodity Exchange
—The Market Mechanism for Small Businesses in Japan—

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(Musashi University)

Nov 2007

No.68
1 The Market for Inalienable Goods

This article analyzes the market mechanism for small and medium-sized companies in Japan. The Japanese small family businesses referred to as “goods” for sale have unique aspects. In short, the companies are not easily detachable from their owner managers. Owner managers have a strong emotional commitment to their business and their workers. It is difficult for owner managers to sell their companies. However, when owner managers face succession problems, they manage to sell their companies in order to continue their businesses and assure employment of their workers. The owner managers tend to feel a strong ambivalence in this situation: he wants not to sell, but he has no choice. Research question in this paper is how people (offers, buyers, and intermediaries) transact small companies as undetachable and inalienable goods.

In general, people choose gift rather than market exchange for irreplaceable and inalienable things (Carrier, 1995; Gregory, 1982; Mauss, 1990; Weiner, 1992). In the Trobriand Islands, tribes present precious necklace, bracelet, or arms to other tribes and refrain from pursuing their interest through bargaining (Malinowski, 1922). In modernized countries, most of economic transaction of inalienable things- human, human organ, blood, sexuality and so on- are prohibited or socially criticized (Radin, 1996; Titmuss, 1997; Zelizer, 2002). These things are inalienable from their owner. In market societies, however, people can manage to buy and sell even inalienable goods if they try to do so. I wonder what type of exchange form emerges in such situations.

This article argues that the market for small and medium-sized companies as “inalienable goods”. The exchange form for these companies emerges as not purely

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economic exchanges. The exchange form has both aspects of gift and commodity exchanges. Owner managers tend not to pursue economic benefit. When selecting potential acquirers, the most important criteria for owners is the integrity of M&A top management. This takes precedence over the selling price. This is one aspect of gift exchanges. On the other hand, owner managers prefer the anonymity in the market. Owner managers prefer not to sell their businesses to companies which have some direct relations with them because owner managers tend to feel ill at ease. That’s why owner managers prefer the market anonymity to close social relation. This is an aspect of market exchanges. Generally, acquirers define the transaction as commodity exchanges and attempt to carry out the transaction rationally compared to owner managers. Conflicts may occur between acquirers and owner managers in terms of the meaning or definition of the transaction (gift or market exchange) rather than pricing or other conditions of contract. M&A intermediaries assume the role of solving this conflict and balancing between gift and commodity exchanges.

The exchange form of small and medium-sized companies emerges as hybrid type of exchange between gift and economic exchange. Both aspects contribute to the functioning of the market. We may be able to find out such hybrid exchange forms in other situations. In market economies, we have opportunities of buying and selling inalienable goods. Market exchange of the inalienable may not be a pure economic transaction but have both aspects of gift and commodity exchanges. As the market becomes to cover not only alienable goods but inalienable goods, hybrid type transactions emerge further more frequently. We may be able to see complex, intermediate types of exchange in the “commodity frontier” (Hochschild, 2001).

2 Existing Literatures on Hybrid Exchange Forms

Some researchers indicate the hybrid exchange forms between gift and commodity exchanges. Malinowski (1922) categorizes various types of exchange on the spectrum between “pure gift” and “pure bartering”. “Pure bartering” means purely an economic exchange. People pursue their economic interest in “pure bartering”. “Pure gift” means a unilateral gift which is gift without counter-gift. Malinowski (1922) sets
“reciprocity”, which means gift with counter-gift, between “pure gift” and “pure bartering”.

Blau (1964) and Sahlins (1972) also categorize various types of exchanges in the spectrum. Blau (1964) sets “pure expression of love” and “pure calculation of advantage” as each side poles of the spectrum. Sahlins (1972) sets “generalized reciprocity” and “negative reciprocity” as each of the poles. “Pure expression of love” and “generalized reciprocity” mean gift without counter-gift, for example mother’s love for babies or blood donation. “Pure calculation of advantage” and “negative reciprocity” include criminal opportunistic behavior, such as theft or deceit. Blau (1964) and Sahlins (1972), as Figure 1 shows, categorize market exchange and gift giving with reciprocity between these poles.

**Figure 1 Various Types of Exchange**

![Figure 1 Various Types of Exchange](image)

Figure 1 indicates various types of exchange and also the existence of hybrid exchange types between gift and market exchanges. Transactions via market may have aspects of gift as well as gift exchanges may have aspects of market exchanges. These are hybrid type exchanges.

Herrmann (1997) argues the hybrid type exchange in her research on the U.S. garage sale. In the social context of the garage sale, two factors generate hybrid types of exchanges, first is the relation of owners to properties for sale, and second is the relation of owners to neighborhood. The owners sell their unneeded articles but they...
have some emotional attachment to the articles. Herrmann refers these articles as “inalienable commodities”. The relation of owners to their properties and neighborhood make the transaction not purely an economic exchange. Owners abstain from pursuing their economic interest and they sometimes sell their articles for very little or as good as free for their close neighbors. This is an element of gifts at the garage sale.

Although we can observe the element of gift giving in the case of the garage sale, we should also focus on the element of market exchanges. Herrmann (1997) argues that the participants (sellers and buyers) prefer the seemingly “market style” of the garage sale because people in a market society are accustomed to the “market style” of transaction. Sellers set a price for each articles even if they sale some items at giveaway prices or almost free. People may feel it is much easier to take part in the market type transaction than in pure gift exchanges, although they may enjoy the atmosphere of gift giving in the garage sale. Herrmann insists that both elements of gift and market exchanges facilitate flow of articles at the garage sale.

I have researched and discovered hybrid types of exchange in the market for Japanese small and medium-sized companies. We can see each element of gift and commodity exchange in each phase of M&A processes. I argue how each element emerges in each phase of the transaction, and what the function each element has.

3 Elements of Gift and Commodity Exchanges

I clarify each of the elements of gift and commodity exchanges in this section in order to argue in the next section the character of the market for small and medium-sized companies. In this paper, I focus on four elements of gift and commodity exchanges: 1) the relationship of owner to their properties, 2) between transactors, 3) price setting, 4) transferability of ownership. Table1 shows these four elements of gift and commodity exchanges.
Table 1 Gift and Commodity Exchange

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<th>Gift Exchange</th>
<th>Commodity Exchange</th>
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<td>1. the relationship between persons and things</td>
<td>Inalienable</td>
<td>Alienable</td>
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<tr>
<td>2. the relationship with transactors</td>
<td>Strong; strengthened by gift</td>
<td>Weak; liquidated after transaction</td>
</tr>
<tr>
<td>3. price setting</td>
<td>Unequivalent exchange; emotional evaluation</td>
<td>Equivalent exchange; rational evaluation</td>
</tr>
<tr>
<td>4. transferability of ownership</td>
<td>Ambiguous</td>
<td>Clear</td>
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(1) The Relationship between Person and Things

The relationship of owners to their properties affects the type of exchange. People tend to adopt gift giving when people exchange undetachable, inalienable things, and conversely, people tend to transact via market when things are actually detachable and alienable (Carrier, 1995; Gregory, 1982; Mauss, 1990; Weiner, 1992).

If people transact inalienable things via market, they may feel ambivalence or may be criticized socially (Hochschild, 2004; Zelizer, 1979, 2002). Inalienable things, for example, love, blood, or children, are regarded as “sacred” things. The value of sacred things deteriorates when the sacred things are evaluated with “secular” monetary criteria (Belk, 1988; Espeland and Stevens, 1998; Zelizer, 1979, 2002). We tend to adopt gift giving as an exchange form of inalienable things in order to avoid deteriorating the sacred value and the integrity of human beings.

(2) The Relationship between Transactors

The relationship between participants of exchanges situations also influences forms of exchanges (Carrier, 1991; Sahlins, 1972). When people transact something with family or friends, they tend to use gift exchange even if they exchange alienable things. As Herrmann (1997) argues, the strong ties of participants make humans refrain from pursuing their economic benefit through the transaction. People, on the other hand,
can pursue their interest when they transact anonymously.

We choose exchange forms related to the other transactor and also select the transactor suitable for the type of exchange form which we want to adopt. For example, when you want to get some money by selling your used books, you may sell them to secondhand bookstores or on websites at possibly higher prices. If you want to strengthen the relationship to your friends or colleagues, you may gift used books or sell them at a lower price. The gift-giving creates a form of psychological debt in the recipient. The psychological debt may make the receiver counter-gift you sometime at a future day and the relationship between both may be strengthened (Mauss, 1990).

(3) Price Setting and Equivalence

In market transactions, people set price economic rationally and equivalent exchanges are realized. Transactors seek their interest each other but the resulting price may be based on agreement and reasonable in an economic sense.

Gift giving with and without counter-gift is un-equivalent exchange (Sahlins, 1972). Values of gifts and counter-gifts tend to be not same. The sender can not receive anything from the receiver in a situation of pure gift, but the sender may be satisfied to be altruistic. When the sender can receive counter-gifts from the receiver, the sender does not or should not care about whether the value of counter-gifts is equivalent or not. Participants of gift exchange, for example, at Christmas time, never negotiate over equivalence of their gifts.

(4) Transferability of Ownership

Transferability of ownership is one condition of market transaction. Once owners sell their properties via market, they lose ownership and new owners have the right to use and dispose of the properties. Equivalent exchange of market transaction assures transferability of ownership (Carrier, 1995).

Conversely, transferability of ownership becomes uncertain in un-equivalent exchange, especially when senders gift their properties without counter-gift. Although the gift transfers to the receiver, the giver keeps some influence over the receiver in
terms of how to use the gifts and the giver has an informal right to take the gifts back if
the sender force to. If you want to keep a right to say something after exchange, you’d
better gift your properties not sell them.

Weiner (1992) refers, in the research of the Trobriand Islands, such a strategy as
“keeping-while-giving”. When tribes must exchange their precious properties with
each other and they seek to keep a right to retrieve their properties, they adopt gift
exchange and the strategy “keeping-while-giving”.

I discussed four elements of gift and commodity exchange. The categorization is
simplified for analytical convenience. Exchanges in real situations are so much more
complex that we can not categorize them dichotomically, gift or commodity exchange.
The M&A process of small and medium-sized companies I will discuss below is also
mosaic types of transaction.

4 Method
I researched the market by interviewing owner managers of small and
medium-sized companies from 2003 to 2006. I held interviews with nine owner
managers who had sold their companies, three employees of each acquirees, twenty
intermediaries, two top managements of acquirers and four new presidents of the
acquirees.

I met each of the management of the acquirers or acquirees by the way of
introduction through intermediaries. Information on M&A of small and medium-sized
companies tends not to be open on newspaper or other media, so it is difficult to meet
the management without intermediaries’ cooperation.

The questions I asked each interviewee were about their actions, intentions, and
personal feelings in each phase of the M&A processes. For example, the questions for
owner managers were, “How did you make up your mind to sale your business?” “What
types of acquirer do you prefer?” “Did your thought of and feelings toward your
companies change after the sale?”

The hypothesis on the market for small and medium-sized companies was generated
from the interview data. We can discover hybrid types of transaction between gift and commodity exchanges in the M&A processes of small family businesses. I discuss below how the elements of gift and commodity exchange emerge and function at each phases of the M&A processes.

5 The Market Mechanism for Small and Medium-sized Companies

The M&A processes of small and medium-sized companies can be described simply in the following way: 1) owner managers consult intermediaries about their succession problems; 2) intermediaries search potential acquirers suitable to owner managers’ preference; 3) acquirers and acquirees negotiate over the terms of contract (prices, treatment of employees and so on) indirectly through intermediaries; 4) transactors enter into an agreement and the ownership of companies transfers to the acquirers.

We can see the hybrid types of exchange especially at the second (searching), third (negotiating), and forth (transfer of ownership) phases. Each phase relates to the elements of gift and commodity exchanges discussed above: the relationship between transactors, price setting and transferability of ownership. The relationship of owner managers (persons) and businesses (things) influences each phase of M&A transactions. Let me discuss firstly the relationship of owners and businesses.

(1) The relationships between owners and companies: Sale of Inalienable Goods

Owner managers have a strong personal relationship with their businesses and their workers because owner managers have managed their businesses for a long time and the relationship of owner managers to the workers tends to be strengthened in a small organization.

Many informants told me this point. An intermediary of Hiroshima Bank said “small companies are the body and soul of owner managers” and an owner manager said “My workers are comrades, I have lived with them longer than with my own family”. We can categorize Japanese small and medium-sized companies as quasi-inalienable goods.
In general, inalienable goods tend to be exchanged through gift exchange not market transaction. Owner managers also prefer to gift their companies to their children. Nowadays, however, children prefer choosing their jobs of their own will instead of succeeding their parents’ businesses. Thus, succession problems occur much more frequently.

When owner managers face the succession problem but they try to continue their businesses, they make up their mind to sell their businesses to other companies. If owner managers were very generous and do not have any monetary interests, they might choose to gift their companies to a third party, but in fact, owner managers are not so generous and they need some funds for their retirement. Even if owner managers were so generous enough to gift their companies, potential acquirers would refuse the offer and prefer market transaction to gift giving because potential acquirers are afraid that the transfer of ownership is ambiguous in gift giving and owner managers retain their influences over their companies.

This is why owner managers choose market transaction as an exchange form for alienating their businesses to other companies. When owner managers sell their businesses, they tend to feel ambivalence or have a guilty conscience. Owner managers are sensitive to criticism from their workers or their acquaintances in other companies. One owner manager had this to say regarding this point:

People have a negative image of owner managers when they sell their business in order to profit or make money. This image is completely different from the fact. Unfortunately, this negative image for M&A of small companies is still dominant in Japan.

This owner manager was sensitive about this negative image. Although he decided to sell his company in order to continue his business and assure the employment of his workers, his acquaintances thought that he sold his business for money, so he was indignant and irritated.

Since owner managers feel ambivalence or have a guilty conscience when they sell
their companies to third parties, owner managers can not recognize M&A transactions as a pure market transaction. Owner managers think their transactors as successors rather than buyers and refrain from pursuing their financial benefit. They attach importance to the integrity and reliability of M&A top managements as the main criteria or most important criteria when selecting acquirers rather than the selling price. We can categorize these aspects as conditions or elements of gift exchange.

(2) The Relationship between Transactors: Anonymity and Trust

Owner managers’ preference of M&A top managements is complex. Owner managers prefer 1) potential acquirers who have no direct relations with owner managers, and 2) M&A top management whom owner managers can have personal relationship with and trust. The anonymity and personal relationship seem to be inconsistent. Owner managers tend to choose acquirers with no direct relations in ex-ante (before transaction) and expect to strengthen a personal but temporal relationship with top management of acquirers in ex-post (going transaction).

The companies with direct relationship to owner managers mostly do the same type of business, so that owner managers are afraid that if the companies accept offer from owner managers, they will intentionally or unintentionally leak M&A information to other companies in the same area of business. The information of selling small businesses implies poor performance of the companies and is possible to deteriorate the credit of the companies in Japan. This is the first reason why owner managers prefer potential acquirers without direct relation to their businesses. Another owner manager said this point:

A friend who does the same business, said to me, why hadn’t I asked him to acquire my company. I couldn’t do that because I was afraid of a leak of the information. The leakage of any information would have had a harmful influence on my company.

The second reason why owner managers prefer companies without direct relation
is that owner managers tend to feel awkward and experience shame if they transact with the companies which have direct relations. An intermediary of Gifu Bank talked this:

Owner managers hesitate to sell their companies who know owner managers well. If they sell their businesses to rival companies, they will lose face.

This is the reason why owner managers prefer to sell to the companies without direct personal relation. This preference seems to be an element of market exchange. Generally, people tend to prefer transactors without personal relationships because people hesitate to pursue their financial interest in the negotiation with who they have personal relationships with. If people gift their inalienable things, they may prefer someone with who they have personal relationships. On the other hand, when people sell their undetachable properties, they may choose transactors who they do not know at all in order not to feel awkward or ashamed. The anonymity which is a key element of market transaction has function of selling undetachable things smoothly.

Although owner managers prefer acquirers without direct relationship before transaction, they expect to strengthen personal relationship with M&A top management through transaction. It is a key factor to choose acquirers whether owner managers can trust M&A top managements or not. This is an element of gift exchanges.

Owner managers seek acquirers who can develop the owners’ businesses and assure the employment of their workers after the sale. If owner managers can have personal relationship with M&A top managements and trust each other through transaction, owner managers can have confidence that the top managements manage owners’ companies according to their expectations. Conversely, if owner managers and top managements of potential buyers fail to have good relationships, the negotiation may be broken off even if owner managers are just satisfied with the selling price. An intermediary of the Tokyo Chamber of Commerce and Industry said:

Negotiation may break down if owner managers can’t trust top managements of acquirers, even if they agree on the terms. Emotions of owner managers affect
the negotiation, especially in cases of small companies because they have a strong attachment to their businesses.

It is essential that for the M&A of small and medium-sized companies the top management of acquirers and acquirees trust each other.

Therefore, intermediaries as go-betweens try to manage the relationship appropriately between both parties when they meet with each other. Top managements of acquirers and acquirees negotiate indirectly through intermediaries. Intermediaries demand that each management never negotiate directly because direct negotiation may harm their relationship. One intermediary of Yokohama Shinkin Bank said:

I usually ask the managements not to talk about the price or other terms. They should talk about the history of each company, their view of life and their firm, or the perspective of the Japanese economy. It is important to discuss these topics rather than money.

The arguments on the terms of contract tend to stress the relationship of top managements economically, impersonally rather than personal. If intermediaries succeed in manage appropriately the situation and the relationship between top managements, the possibility of succeeding in these transactions will increase.

(3) Price Setting: Emotional Value vs. Monetary Value

We can observe both elements of gift and commodity exchanges at the price setting phase. The elements of gift exchanges are that 1) owner managers refrain from pursuing their economic interest, but 2) owner managers tend to evaluate the value of their businesses higher than intermediaries or potential acquirers because the commitment of owner managers to their businesses is so strong that they evaluate their businesses emotionally rather than rationally in economic terms. These two aspects of price setting seem to be inconsistent but these are caused for the same reason, which is a deep attachment of owner managers to their companies.
In market transactions, price should be evaluated rationally. If owner managers’ emotional evaluation of their businesses is higher than rational economic value, intermediaries manage to convince owner managers to agree in rational terms. Intermediaries do not sympathize with owner managers’ emotion at this phase and they try to set the price rationally. We can say that this aspect of price setting is an element of market exchange.

First of all, let me discuss the elements of gift exchange at this phase. Most owner managers I interviewed accepted and do not complain about the selling price offered by intermediaries. One owner manager gave his view on this point:

I left the matter of pricing to my intermediary. All I demanded was that potential acquirers assure the employment of all workers and never change their treatment for at least a year. I had no right to demand anything from acquirers except on the matter of my employees. So, I said nothing about the pricing. I trusted my intermediary who evaluated my business, so I agreed on the price.

The reasons why owner managers refrain from pursuing their economic interests are because 1) they regard the assurance of employment of their workers as the most important things rather than the selling price, and 2) owner managers tend to feel that pursuing economic interests deteriorates the “sacred” value of their businesses.

Although owner managers do not pursue their economic interest, they sometimes are discontent with the evaluation of their businesses offered by intermediaries or acquirers. The reason is that owner managers tend to evaluate their businesses emotionally not rationally rather than that they seek high economic profit by selling their businesses. Another owner manager was dissatisfied with the evaluation offered by an acquirer:

My company has about fifty years history. It has dominated a niche area for a long time. So, my company has great value. Other rival companies can’t compete with my company. Nevertheless, the value of my business evaluated by
the acquirer was very disappointing.

The owner manager did not pursue his economic interest. He had pride in his company and in his life as a top management, so that he expected much higher evaluation.

Even if owner managers evaluate their companies emotionally and expect higher evaluation, intermediaries manage to convince owner managers of the rational market price not the emotional value. Intermediaries adopt various measures to persuade owner managers. For example, some intermediaries put pressure moderately on owner managers, “No one might not acquire your company at such a high price as you expect.” Other intermediaries show the price evaluated by several potential acquirers to owner managers when owner managers don not consent to the price by one intermediary or one acquirer.

Since rational price setting is an essential element of market exchange, intermediaries consider economic rationality much more important than the emotion of owner managers at the phase of price setting.

(4) Transferability of Ownership: Detachment Owners from Their Businesses

Transferability of ownership is also an important element of market exchange. In market exchange, the ownership of goods transfers completely to buyers in exchange of equivalent money.

This rule of market exchange is also considered as an important thing in M&A of small and medium-sized companies. Owner managers can not be directly involved in the management of their businesses after the sale, though they do assist in their companies in order to transfer their work know-how to new managers for about six month.

Intermediaries recommend to owner managers that they completely retire after the sale because intermediaries are afraid that owner managers will try to maintain their influence over employees even after the sale. Certainly, owner managers seem to maintain their influence over employees because owner managers had overwhelming
authority in their companies and a strong relationship with their workers.

However, owner managers try of their accord to detach themselves from their businesses after the sale. The reasons are because 1) owner managers also recognize the rule of market in terms of the transfer of ownership, and 2) it is difficult for owner managers to feel relieved unless owner managers stay involved with the management even after the sale. One owner manager gave these reasons:

Now I still stay at my company in order to transfer my business know-how to new manager but I go to my office only once a week. If I stay involved after the sale, I will continue to worry and be concerned about it... However, I know I have no right to be further involved the management and order a new manager… I don’t know recent performance of the company and don’t ask. If I know this information, I will worry, so I completely detach myself from the company.

Transferability of ownership is assured not only by formal rules of market but also by the intention of transactors. Ownership of small companies transfers smoothly to acquirers because owner managers try of their own accord to detach psychologically themselves from their businesses. If owner managers cling to their status in their companies, the transfer of ownership will not be go smoothly.

In this paper I have discussed the M&A process of small and medium-sized companies as hybrid exchange types between gift and commodity exchanges. As show in Table 2, the elements of gift and commodity exchanges emerge at each phase of the M&A process. The mosaic of gift and market exchanges generates as a result of negotiation over an appropriate exchange form rather than the terms of contract among transactors. Owner managers tend to interpret the M&A process as a gift-oriented exchange, and on the other hand, potential acquirers tend to recognize it as a market-oriented exchange. Intermediaries manage to balance appropriately each element of gift and market exchanges in order to conclude the M&A transaction and acquire a contingency fee. The hybrid types of exchange emerge as a result of negotiation among the three players over not only economic interests but also what an
appropriate exchange form is.

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<th>Table 2 Characteristics of M&amp;A of Small Firms</th>
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<td>gift exchange</td>
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<td>2. the relationship with transactors</td>
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<tr>
<td>Intermediaries try to facilitate personal relationships between both parties —</td>
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<td>3. price setting</td>
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<td>4. transferability of ownership</td>
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<td>Intermediaries recommend to owner managers that they completely retire after the sale</td>
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The balancing function of intermediaries is important as well as the searching or negotiating function of them in the market for small and medium-sized companies. Existing researches, mainly in Economics, focus on the functions of searching, matching, information transmitting, price setting and negotiating of intermediaries (Bowers and Miller, 1990; Garella, 1986; Hunter and Walker, 1990; McLaughlin, 1990; Servaes and Zenner, 1996; Yavas, 1992, 1994; Yinger, 1981). These functions may be important in a relatively pure market exchange, for example, the market for used cars or real estate. However, where each transactor has a different view of exchange, gift or market exchanges, the balancing function of intermediaries may be necessarily.

6 Conclusion

We have a lot of opportunities to buy and sell various types of things with various types of transactors in modern market economies. Therefore, we may exchange even irreplaceable goods in the market, and may buy and sell something with friends or family members. These market transactions may be different from purely a market
exchange and may have both elements of gift and commodity exchanges.

Certainly, market-oriented transactions dominate in modern economies, but if we observe carefully market exchanges, we can see in each transaction various types of mosaic containing both elements of gift and commodity exchanges. I believe the perspective will further facilitate the understanding of modern market economies.

REFERENCES


