

Transaction Costs

- **Information costs (measurement).**
- **Contractual**
- **Asset specificity**
- **Prediction of future**
 - choices of others
 - state contingent
- **All create interdependence & possible opportunism.**

Alternative structures for dealing with contractual cost: business

- Grab, and pay court assessed damages.
- Breech contract, and pay damages.
- Grab and claim reasonable use.
- Grab and have govt. declare you owner because you would have bought it at zero transaction costs.

Alternative structures for dealing with contractual cost:

- **Class action law suits.**
- **Claim eminent domain.**

Politics:

- **Simple majority, 2/3, or unanimity.**

Alternative structures for dealing with information costs

- **Caveat emptor.**
- **Voluntary or required labels.**
- **Brands, endorsements, certification.**
- **Rules of merchantability.**
- **Product standards and liability.**
- **Require provision by lowest cost provider.**

Alternative Structures for Asset Specificity Costs

- Hierarchy, Integration.
- Hostages.
- Farmers tied to monopoly buyer-processor.
- Keiretsu & Chaebol.
- Golden Arches required.
- Status: learned forbearance.

Situation: Specific Assets

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| <ul style="list-style-type: none"> ■ 1. Hierarchy or hostages. ■ 2. Markets Fundamental trans-formation. ■ 3. Learned loyalty O.W. ignores. | <ul style="list-style-type: none"> ■ 1. Use low cost specific asset. O.W. "firms choose efficient governance. No power" ■ 2. Use high cost general asset. Possible holdup. ■ 3. No opportunism, share any losses. |
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Hogs: processing plant: specific asset.
Labor: hard to monitor.

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| <ul style="list-style-type: none"> 1 Ex ante contract: only buyer in region. 2. Auction market 3. Mgt-labor has incentive contract. 4. Mgt.-labor hired. | <ul style="list-style-type: none"> 1. Low unit cost plant. No opportunism. 2. High unit cost plant. Barn subject to loss. 3. Mgt-labor works hard. 4. Mgt.-labor shirks. |
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New Tiger Stadium or clearance of derelict houses

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| <ul style="list-style-type: none"> 1. Eminent domain. Pay going market price determined by court. 2. Market | <ul style="list-style-type: none"> 1. Saves transaction cost. Economizing institution, but also power issue since buyer captures rent. 2. Holdouts capture rent. May kill project. |
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Food Quality

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| 1. Labels | 1. Some can't understand--just want "good" product. |
| Voluntary | |
| Required | 2. Not all agree on std. |
| 2. Merchantability | 3. Not all agree on std. |
| 3. Govt. std. | 4. Not all agree on std. |
| 4. Private std. | 5. Much advertising. |
| 5. Private brands | Barrier to entry by small firms. |

Policy Bites

- **Economizing (Williamson)**
 - Firms will economize if left alone.
 - Private governance.
- **Power (I&BE)**
 - Lots of inevitable collective choices to be made determining whose preferences count (who economizes what).