



What is the best institution? No power because all agree on recuperation?

- Exit (market bargaining and voting)
- Voice (authority or just pleas?)
- Loyalty (informal institution; status-grant)

- Hirschman's answer is the alternative that restores quality to its previous level.
- Is the answer sensitive to "situation?"

Two Situations	Structure	Performance
A. Non-specific assets-- "factors are hired by others."	1. Right to Exit	Exit chosen if firm fails to perform. No loss of asset value if firm responds.
B. Specific Assets-- "Standardized durable consumer goods requiring large outlays."	1. Right to exit. 2. Loyalty	1. Exit chosen. Wipe Out! Asset value lost. 2. Firm given time to recuperate. No asset loss.