

(New) Institutional Economics

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I. Coase



■ Ronald Coase

- British Economist
- Born 1910
- Nobel Prize in Economics in 1991
- *The Nature of the Firm, 1937*
- *The Problem of Social Cost, 1960*
- *The FCC, 1959*

II. Williamson



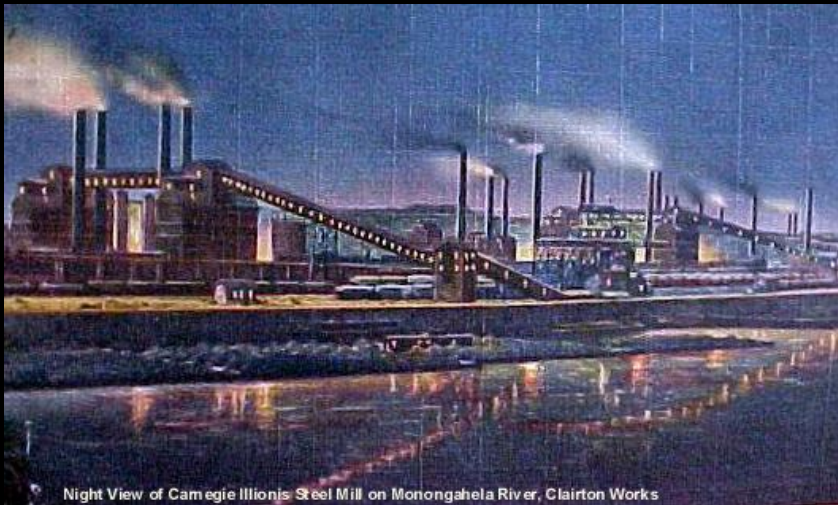
- Oliver Williamson
- American Economist
- Born 1932
- Stanford MBA
- Teaches at Cal

Overview

■ Three Lessons

- Property Rights/Default Rules and Transaction Costs Matter
- Buy, Lease, or Build Decisions Matter
- Facts and Institutions Matter

Coase and Property Rights



Steel Mill emits pollution



Homeowners want clean air

Coasian Example

- \$100,000 worth of damage
- \$80,000 cost to put on scrubbers to eliminate emissions
- \$50,000 to change nearby land use
- Choices:
 - Regulate so there is no pollution
 - Tax on pollution
 - Do nothing

Regulate to Prohibit Pollution

- Prevents \$100,000 worth of damage
- Prevents output from steel mill?
 - How much is the output worth?
- Does the output have to be worth more than \$100,000 for preventing production to be inefficient?

Tax on Production

- Charge the factory owner \$100,000 if pollute
- Steel owner choice to implement scrubbers
 - Cost of \$80,000
 - Depends on net profits

Do nothing

- Nearby land use will change at cost of \$50,000
- Imposes cost on nearby land owner.
- Efficient solution depending on value of output.

Coasian Solution

- Efficient solution is important
- Low cost is to change nearby land use if output is worth enough.
- Do nothing will get there, but put cost on landowner
- Tax on pollution or regulation will not.
- But allowing tradability will.

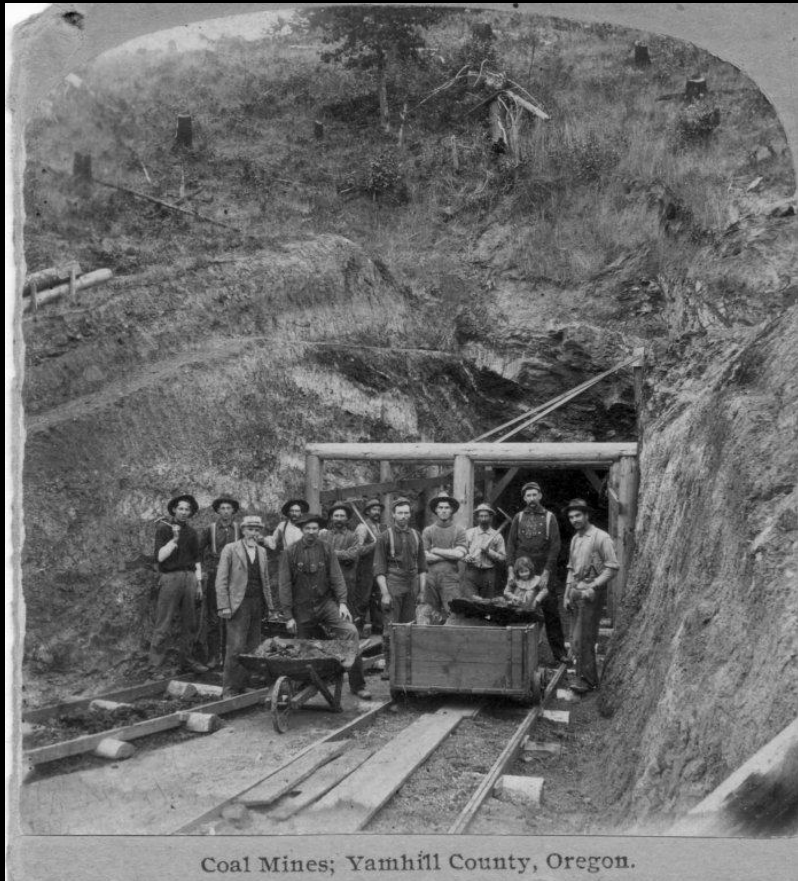
Coase Theorem

- Complexities with the Coase Theorem
 - Transaction costs
 - Legal disputes
 - Imperfect or asymmetric information
 - Free rider problem
 - Pooling and holdout
 - Externalities

What Coase Can Teach

- Three Coasian corollaries
 - Bilateral opportunism
 - How institutions operate
 - Initial conditions matter
 - How people behave

Bilateral opportunism



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More Actions ...



One last question

★ [Robyn, Dorothy](#) to me[More options](#) Nov 7 (4 days ago)

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