**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 & Chaebal.
- Golden Arches required.
- Status: learned forbearance.

Situation: Specific Assets

1. Hierarchy or hostages.
   - 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.

2. Markets
   - Fundamental transformation.

3. Learned loyalty
   - O.W. ignores.

**Hogs:** processing plant: specific asset. Labor: hard to monitor.

- 1. Ex ante contract: only buyer in region.
- 2. Auction market
- 3. Mgt-labor has incentive contract.
- 4. Mgt.-labor hired.

- 1. Low unit cost plant. No opportunism.
- 4. Mgt.-labor shirks.

**New Tiger Stadium or clearance of derelict houses**

1. Eminent domain. Pay going market price determined by court.
   - 1. Saves transaction cost. Economizing institution, but also power issue since buyer captures rent.
   - 2. Market

2. Holdouts capture rent. May kill project.
**Food Quality**

1. Labels
   - Voluntary
   - Required
2. Merchantability
3. Govt. std.
4. Private std.
5. Private brands

1. Some can’t understand—just want “good” product.
2. Not all agree on std.
3. Not all agree on std.
4. Not all agree on std.
5. Much advertising. 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).