Transactions

Лекция по дисциплине «Институциональная экономика»

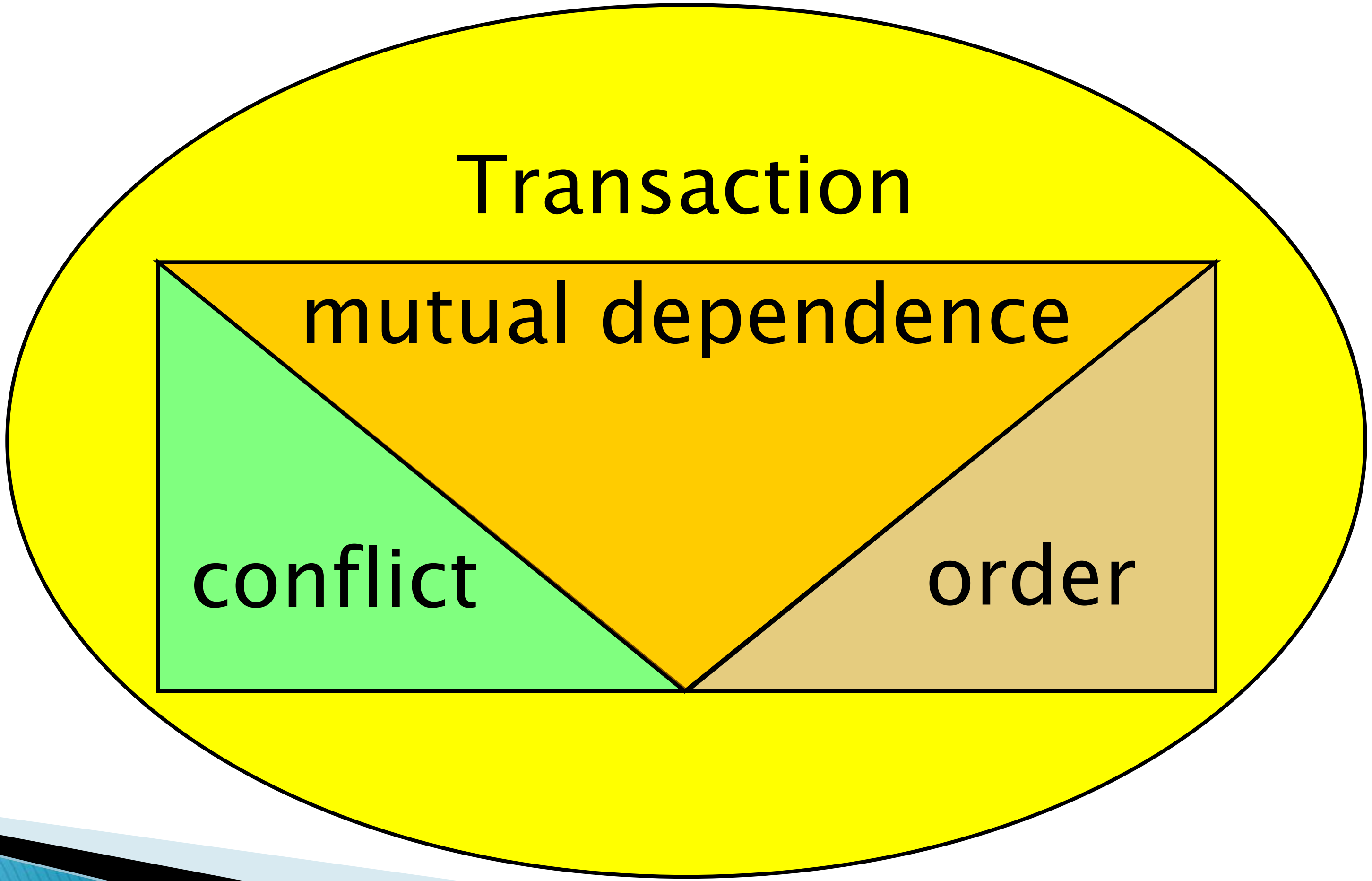
The purpose of the lecture: to consider the various types of transactions and to identify the essence of fundamental transformation

JOHN ROGERS COMMONS

Transactions are the alienation and acquisition, carried out in bargaining and negotiations between and among individuals, of the rights of property and liberty established by society.

Transactions are the fundamental units of economic activity

Commons observed that mankind confronts three fundamental challenges in overcoming scarcity: resolving conflict, dealing with interdependence, and creating civic order



John Commons typology of transactions

Bargaining transaction

Managerial transaction

Rationing transaction

Bargaining transaction

The Bargaining transaction leads to the redistribution of goods, new goods are not created. Participation in a Bargaining transaction is associated with resources scarcity and the potential for a mutually beneficial exchange.

- The bargaining transaction is made by legal equals (if not economic equals) who exchange or trade property rights and ownership interests through voluntary agreement. Typically this occurs through markets and prices reflect the terms of trade. Bargaining transactions are the hallmark of a capitalistic market economy.

Managerial transaction

The managerial transaction takes place within firms and other institutions devoted to the creation of wealth. In broad form it is similar to a rationing transaction because it transfers ownership through command and vests a legally superior person with the ability to order a legally subordinate person to do the former's bidding (within limits). The managerial transaction occurs, for example, when the entrepreneur uses other people's purchased labour as a factor input in production.

- Managerial transactions reflect hierarchical relationships

Rationing transaction

- Rationing transactions (or ‘administrative transactions’) are the product of command between a legal superior and legal inferior. A rationing transaction takes place when ‘either the quantity or the price, or both, are determined by some superior power’.

Transaction. Williamson's approach

A transaction occurs when a good or service is transferred across a technologically separable interface. One stage of activity terminates and another begins.

Interface is defined as the parameters / media through which transactions are made between two entities through markets or within organizations.

Transaction. Williamson's approach

The critical dimensions for describing transactions

- uncertainty,
- the frequency with which transactions recur,
- the degree to which durable
- asset specificity

Transaction. Williamson's approach

Asset Specificity is the degree to which an **asset** can be used for different purposes.

- High **specificity (Idiosyncratic)** means that there is little opportunity to use an **asset** for anything other than its initial intended purpose.
- Low **specificity (Nonspecific)** means that an **asset** has many possible different uses.

Asset Specificity

Williamson (1983) identified four dimensions of asset specificity:

- Site specificity, e.g. a natural resource available at a certain location and movable only at great cost;
- Physical asset specificity, e.g. a specialized machine tool or complex computer system designed for a single purpose;
- Human asset specificity, i.e., highly specialized human skills, arising in a learning by doing fashion; and
- Dedicated assets, i.e. a discrete investment in a plant that cannot readily be put to work for other purposes.

Malone (1987) made an important addition to the above list:

- Time specificity, an asset is time specific if its value is highly dependent on its reaching the user within a specified, relatively limited period of time.

Asset Specificity

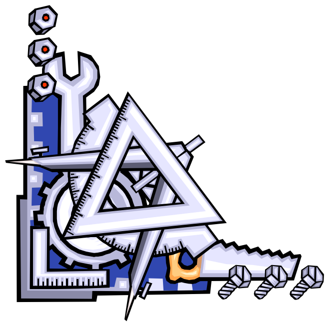
Quantitative assessment of asset specificity :

$$A = \frac{V - V_{alt}}{V}$$

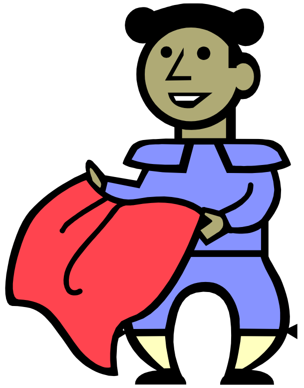
V – benefit from the best possible use of the asset;

V_{alt} – benefit from the best alternative use of an asset.

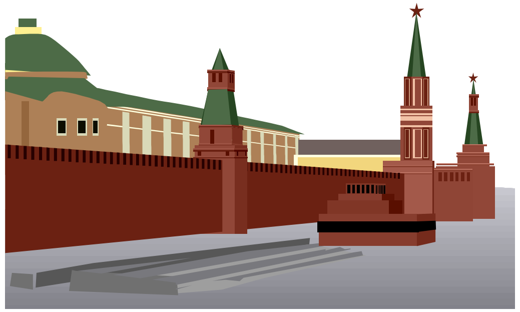
Asset Specificity



Physical asset specificity



Human asset specificity



Site specificity

Time specificity

brand name capital

Which of the following are examples of asset specificity.
Select one:

a. A railroad building a spur to deliver coal to an electric utility.
b. An automobile body mold made specifically for General Motors.
c. A tire manufacturer expanding capacity to meet the needs of the automobile industry.
d. Only answers a and b are examples of asset specificity.
e. Answers a, b & c are examples of asset specificity.

When there is a specific asset -- there is more of an incentive for opportunism.

It is worth mentioning that those dimensions have an influence on the level of transaction costs: the increase in transactions’ frequency decreases transaction costs; the more asset specification, the higher transaction costs

Transaction cost theory maintains that hierarchies and markets are alternative governance structures to organizing economic activity and that firms need to align governance structure and transaction characteristics.

The basic argument of TCE is that decision makers will choose whichever governance structure minimizes the total cost associated with a transaction.

Transaction characteristics → **Transaction costs** → **Governance structure**

		Investment Characteristics		
		Nonspecific	Mixed	Idiosyncratic
frequency	occasional	Purchasing Standard Equipment	Purchasing Customized Equipment	Constructing a Plant
	recurrent	Purchasing Standard Material	Purchasing Customized Material	Site-Specific Transfer of Intermediate Product Across Successive Stages

		Investment Characteristics		
		Nonspecific	Mixed	Idiosyncratic
frequency	occasional	Market Governance: Classical Contracting	Trilateral Governance (Neoclassical Contracting)	
	recurrent		Bilateral Governance	Unified Governance

Bilateral dependency and fundamental transformation

At the onset the buyer has a number of potential sellers competing to deliver the product. The seller also has no dependency on the buyer. However, once the buyer selects seller, and both parties make transaction specific investments (asset specificity), the buyer and seller go throuhg fundamental transformation and become bilateraly dependend.

Additional Reading:

1. Oliver E. Williamson. Credible Commitments: Using Hostages to Support Exchange / The American Economic Review. Vol. 73, No. 4 (Sep., 1983)