



Higher School of Economics

**Center for Institutional
Studies**

Lecture 4. Transaction costs

Key questions

What are transaction costs and what types of transaction costs exist?

How transaction cost influence the choice of governance model?



Transaction cost: approaches to definition

Approach proposed by Ronald Coase

- Starting question: WHY firms?
- Cost of market mechanism functioning

Integral approach

- Cost of functioning of various governance structures



Transaction cost classification: (North - Eggertsson)

[Ex ante]

Search cost

- Search strategies (how search is organized)
 - Anonymous market
 - Specialized agents
 - Social networks
- What agents search for?
 - Prices
 - Quality
 - Information about potential partners



TABLE 1—JOB-FINDING METHODS USED BY WORKERS

Source/data	Percentage of jobs found using each method					Sample size
	Friends/relatives	Gate application	Employment agency	Ads	Other	
Myers and Shultz (1951)/sample of displaced textile workers:						
First job	62	23	6	2	7	144
Mill job	56	37	3	2	2	144
Present job	36	14	4	0	46 ^a	144
Rees and Shultz (1970)/Chicago labor-market study, 12 occupations: ^b						
Typist	37.3	5.5	34.7	16.4	6.1	343
Keypunch operator	35.3	10.7	13.2	21.4	19.4	280
Accountant	23.5	6.4	25.9	26.4	17.8	170
Tab operator	37.9	3.2	22.2	22.2	14.5	126
Material handler	73.8	6.9	8.1	3.8	7.4	286
Janitor	65.5	13.1	7.3	4.8	9.3	246
Janitress	63.6	7.5	5.2	11.2	12.5	80
Fork-lift operator	66.7	7.9	4.7	7.5	13.2	175
Punch-press operator	65.4	5.9	7.7	15.0	6.0	133
Truck driver	56.8	14.9	1.5	1.5	25.3	67
Maintenance electrician	57.4	17.1	3.2	11.7	10.6	129
Tool and die maker	53.6	18.2	1.5	17.3	9.4	127
Granovetter (1974)/sample of residents of Newton, MA:						
Professional	56.1	18.2	15.9 ^c	— ^c	9.8	132
Technical	43.5	24.6	30.4	—	1.4	69
Managerial	65.4	14.8	13.6	—	6.2	81

Transaction cost classification: (North - Eggertsson)

[Ex ante]

Search cost

Search Theory or Economics of Search

- Stigler, George J. (1961). "The economics of information". Journal of Political Economy 69 (3): 213–225. Nobel Prize (1982)
- Maarten Janssen - <http://www.hse.ru/org/persons/28281083>



Suggested Citation: Eppel, Rainer; Mahringer, Helmut; Weber, Andrea (2014) : Job Search Behaviour and Job Search Success of the Unemployed, WIFO Working Papers, No. 471, Austrian Institute of Economic Research (WIFO), Vienna

Table 2: Job search channel use and job finding success

	(1) Channel used		(2) Most important channel	(3) Job finding channel	(4) Success rate
	N	%	%	%	%
Formal job search channels					
PES	1,231	74.2	15.7	18.4	11.4
Newspaper	1,132	68.2	18.8	11	7.5
Internet	1,119	67.4	29.7	14.6	10
Bulletin	453	27.3	1.4	1.7	1.8
Private agency	223	13.4	1.6	4.3	13
Informal job search channels					
Friends and relatives	1,198	72.2	19.2	33.6	20.4
Direct application	898	54.1	12.1	9.6	7.2
Other channels	47	2.8	1.5	6.8	
No search	170	10.3			
Total sample	1,660	100.0	100.0	100.0	
Mean nr. of search channels used					3.8
Mean nr. of formal search channels used					2.5
% share using informal search channels					79.8



Table 4: Determinants of the use of job search channels

Estimates from binary logistic regressions of search channels for all active job-seekers

	PES	Newspaper	Internet	Bulletin	Private agency	Friends	Direct appl.	No search
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Woman		+	+	+				
Age (years)		+	-		-			+
<i>Education</i> (ref.: at most compulsory school)								
Intermediate vocational school		+	+					
Apprenticeship	-							
Higher academic or vocational school			+					
Academic education	-		+			+		-
Austrian citizenship								-
<i>Language skills</i> (ref.: neither of both)								
German as mother tongue		+	+					
German learnt from early age		+						
High work motivation								-
Large social network	-	+				+		
Lack of PC-access		-	-			-		+
Financial problems	+					+	+	-
Unemployment spell duration	+				+	+	+	
<i>Unemployment in last 2 years</i> (ref.: 0 days)								
1-183 days								-
184-366 days								-
>366 days	+		+		+		+	
Days of sickness benefit receipt in last 2 years				+				+
Involuntary job loss								-
Regional unemployment rate						-		+
Mean dependent variable	0.833	0.766	0.757	0.306	0.151	0.811	0.608	0.103
Observations	1,490	1,490	1,490	1,490	1,490	1,490	1,490	1,660
Pseudo R ²	0.109	0.114	0.221	0.0823	0.115	0.0913	0.0629	0.234

Transaction cost classification: (North - Eggertsson)

[Ex ante]

Bargaining costs, including

Communication cost

- Direct bargaining costs (due to language and cultural differences)

Strategic cost

- Signals to potential partners

Cost of delayed agreement

- Alternative costs



Transaction cost classification: (North - Eggertsson)

[Ex ante]

Bargaining cost

Bargaining theory, Mechanism design, Auction theory

- Nobel Prize (2007): Leonid Hurwicz, Eric Maskin, and Roger Myerson "for having laid the foundations of mechanism design theory"
- Nobel Prize (1996): William Spencer Vickrey and James Mirrlees for their research into the economic theory of incentives under asymmetric information

Contract-making cost

- Lawyer costs
- Taxes as transaction goods



Transaction cost classification: (North - Eggertsson)

[Ex post]

Monitoring

Direct and indirect cost of monitoring



Transaction cost classification (North - Eggertsson)

[Ex post]

Enforcement cost

Incentive / Effective wages

Can social networks be used for enforcement? At what cost?

Taxes as transaction goods (we pay to get access to enforcement system)



Transaction goods

– institutions and technologies that individuals can get access to (on free or paid basis) with the aim to decrease individual costs of transacting (transaction cost)



Transaction goods

Fields	Transaction goods
Contracts	Standard forms of contracts; Enforcement system
Measurement	Money; metrology; quality standards
Property rights protection	Titles of ownership; Court and penitentiary systems
Informational infrastructure	Legal and statistical information



Enforcement

Enforcing party	Enforcement system
<i>First party</i>	
Actor	Self-control
<i>Second party</i>	
Other participants of social interaction	Control from the other participants
<i>Third party</i>	
Social group	Informal control from the social group
State	Law system



Transaction cost classification (North - Eggertsson)

[Ex post]

Protection from 3rd parties

State

Competitors

Organized crime etc



Transaction cost classification: (North - Eggertsson)

Ex ante

Search cost
Bargaining cost
Contract-making cost

Ex post

Monitoring cost
Enforcement cost
Protection from 3rd party



Example: Repair of apartment

Transaction cost	Do-it-yourself	Informal repair team	Official repair firm
Information search	Search at building materials market	Search for the team, collecting information about alternatives	Firm search, search for information about this firm and its alternatives
Bargaining	Bargaining with individual sellers	Bargaining over work conditions	---
Contract-making activities	---	---	Analysis of standard contract
Monitoring	---	Monitoring over quality	---
Enforcement	---	Enforcement (need to eliminate defects)	Court costs
Protection from 3 rd parties	Obtaining permission to redevelop the apartment	Interactions with with the Labour Inspection and the Migration Service	---

Classification of goods based on measurement cost

Inspection goods

Experimental goods

Credence goods

Institutions and mechanisms that help to decrease transaction costs

- Warranties
- Standards
- Licenses
- Trademarks
- Reputation

