Transaction Costs

• The Coase Theorem rests on the assumption that rights can be rearranged at negligible cost.

• So, when the rights belong to the “wrong” party, the costs of transferring the rights are minor and the economically efficient solution will prevail.

What happens if there is a significant transactions cost?

Bryant v. Lefever

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Bryant v. Lefever

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  - They would want £440 in the aggregate and it would cost him £420 to make the deal. His total costs of £860 would exceed his benefits.
  - In short, the assignment of property rights can make a difference here.

Bryant v. Lefever

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The Law Against Nuisances

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  - People have a right to peaceful enjoyment of their property.
  - Property rights did not include the right to impose unreasonable externalities on others.

But what is a nuisance?

- I am taking a nap at 3:00 PM and my neighbor decides to mow his lawn. No judge would rule that my peaceful enjoyment has been affected.
- I am asleep in bed at 3:00 AM and my neighbor has a loud party with the stereo full blast, windows open. Any judge would rule interference with my right of peaceful enjoyment.

When transaction costs are considered, this seems a reasonable assignment of property rights.

An Airport

- The neighbors would object to a new airport as a violation of the law against nuisances.

The courts would recognize the power of the legislature to overrule the law and grant the airport authority to operate.

End