

Transactions Cost and the Law of Nuisances

Transaction Costs

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

Transaction Costs

- The Coase Theorem rests on the assumption that rights can be rearranged at negligible cost.
- **What happens if there is a significant transactions cost?** “wrong” party rights are transferred to the “right” party. The economically efficient solution will prevail.

Bryant v. Lefever

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Bryant v. Lefever

- Lefever's new house imposes damages of £22 on each of twenty nearby houses. He gets £130 of benefits from the higher house.
 - The new structure should not be built.
 - But if it would cost £21 to negotiate with each of his neighbors, they will not be willing to pay him enough to stop the construction of the house.

Bryant v. Lefever

- Lefever's new house imposes damages of £22 on each of his neighbors. He gets £800 from the sale of his house.
 - The benefits are high enough to pay for the damages.
 - But the transactions cost of building his house with each neighbor is high enough to preclude them from stopping him.

Bryant v. Lefever

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- And, even if the benefits were say £800, he would not be willing to buy the rights from each of his neighbors.
 - 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.

The Law Against Nuisances

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

The Law Against Nuisances

- 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.

The Law Against Nuisances

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

The Law Against Nuisances

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

The Law Against Nuisances

- 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

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