

## The Problem of Social Cost



# Main Points

Why are we dealing with a problem of reciprocal nature?

- 1 *Stories: Doctor vs Confectioner and Cattle vs Crops*
  - 2 *Why the value of what is sacrificed matters?*
  - 3 *Liability vs No Liability, EQUAL RESULTS*
  - 4 *"The ultimate result (which maximizes the value of production) is independent of the legal position if the price system is assumed to work without cost"*
- **Let us talk about Sturges vs Bridgman**

# Main Points

- The Cost of Market Transactions!
- ① Why firm is not the only possible answer?
- ② Alternative Solution.... Government???
- ③ Role of Information? Problems of the governmental administrative machine?
- ④ Do nothing?
- ⑤ *The problem is one of choosing the appropriate social arrangement for dealing with harmful effects*
- ⑥ **IF Market transaction were costless, all that matters is that rights of the various parties should be well-defined.**

# Main Points

- “But even in the most advanced States there are failures and imperfections. . . there are many obstacles that prevent a community’s resources from being distributed. . . . in the most efficient way. The study of these constitutes our present problem. . . . its purposes is essentially practical. It seeks to bring into clearer light some of the ways in which it now is, or eventually may become, feasible for governments to control the lay of economic forces in such wise as to promote the economic welfare, and through that, the total welfare, of their citizens as a whole. . . . It might happen. . . that costs are thrown upon people not directly concerned, through, say, uncompensated damage done to surrounding woods by sparks from railway engines.”
- Why Coase criticizes Pigou’s Railway example?

# Main Points

- Why Coase considers that alternative social arrangements are better than taxes???
- Why tax is different than compensation?
- Role of the fall in the value of production
- Information Again