

Investment in control of pollution assignment



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They prevent a free market from being efficient. () In this case government intervention seemed to enhance efficiency. Coase presented in 1960 a convincing argument: that exchange, in free market is more powerful in producing efficient results than had been thought previously. As long as property rights can be traded, there is an incentive to rearrange these rights to enhance economic efficiency. If firm doesn't control pollution there is an opportunity cost of not receiving from its neighbors) The firm will pollute only if the pollution is more valuable to the firm than the cost it imposes on its neighbors.

Coase's arguments convinced most economists that externalities were less of a problem than previously thought and implied a distribution of property (legal) rights might have less of an effect on the ultimate use of resources than it has on the distribution of income. So long as these rights can be exchanged. Market exchange will not always solve the problem of externalities, due to contracting costs, as search and info costs, bargain and decision costs, drafting, policing and enforcement costs.

Coase Theorem: the ultimate resource allocation will be efficient, regardless of the initial assignment of property rights, as long as contracting costs are sufficiently low and the property rights are assigned clearly, are well enforced, and can be exchanged readily. It suggests also that contracting costs are central to the study of organizations. Coordinating production and consumption decisions in large economies than is central planning. The price system motivates better use of knowledge and information in economic decisions, and provides stronger incentives for individuals to make productive decisions.

General vs. Specific Knowledge General knowledge is free to transfer. (prices and quantities) As the cost of information transfer increases, information is said to be more specific. Factors that influence costs of transferring information: 1 . Characteristics of sender and receiver(people of same training culture and language communicate easier) 2. Technology available for communication (email lowers costs of transferring information) 3. Nature of the knowledge itself. (some knowledge is difficult to summarize, empowered and transfer in a timely fashion) Specific types of knowledge 1 .