

[Home](#) > [Handbook of New Institutional Economics](#) > Chapter

Transaction Cost Economics

| Chapter

| pp 41–65 | [Cite this chapter](#)





Handbook of New Institutional Economics

[Oliver E. Williamson](#)

9323 Accesses 45 Citations 3 [Altmetric](#)

Transaction cost economics is an effort to better understand complex economic organization by selectively joining law, economics, and organization theory. As against neoclassical economics, which is predominantly concerned with price and output, relies extensively on marginal analysis, and describes the firm as a production function (which is a technological construction), transaction cost economics (TCE) is concerned with the allocation of economic activity across alternative modes of organization (markets, firms, bureaus, etc.), employs discrete structural analysis, and describes the firm as a governance structure (which is an organizational construction). Real differences notwithstanding, orthodoxy and TCE are in many ways complements—one being more well-suited to aggregation in the context of simple market exchange, the other being more well-suited to the microanalytics of complex contracting and nonmarket organization.

I begin by contrasting the lens of contract (out of which TCE works) with the lens of choice (orthodoxy). Vertical integration, which is the paradigm problem for TCE, is then examined. The operationalization of TCE is discussed in Section 3. Variations on a theme are sketched in Section 4. Public policy is discussed in Section 5. Concluding remarks follow.

 This is a preview of subscription content, [log in via an institution](#)  to check access.

Access this chapter

[Log in via an institution](#) →

We're sorry, something doesn't seem to be working properly.

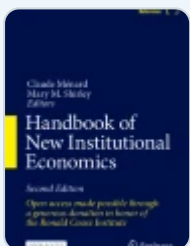
Please try refreshing the page. If that doesn't work, please contact support so we can address the problem.

[Institutional subscriptions](#) →

Preview

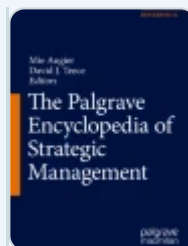
Unable to display preview. [Download preview PDF.](#)

Similar content being viewed by others



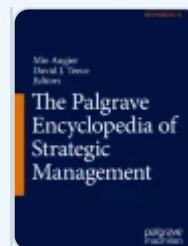
Transaction Cost Economics

Chapter | © 2025



Economizing

Chapter | © 2018



Transaction Cost Economics

Chapter | © 2018

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Cultural Economics](#)

[Institutional and Evolutionary Economics](#)

[Market Structure and Economic Design](#)

[Microeconomics](#)

[Public Economics](#)

[Transportation Economics](#)

[Transaction Cost Economics and Governance Structures](#)

References

Anderson, Erin and David C. Schmittlein. 1984. "Integration of the Sales Force: An Empirical Examination". *Rand Journal of Economics* 15(3): 385-395.

[Article](#) [Google Scholar](#)

Bajari, Patrick and Steven Tadelis. 2001. "Incentives Versus Transaction Costs: A Theory of Procurement Contracts". *Rand Journal of Economics* 32: 387-407.

[Article](#) [Google Scholar](#)

Barnard, Chester I. 1938. *The Functions of the Executive*. Cambridge, MA: Harvard University Press.

[Google Scholar](#)

Baron, James N. and David M. Kreps. 1999. *Strategic Human Resources: Frameworks for General Managers*. New York: John Wiley.

[Google Scholar](#)

Becker, Gary. 1962. "Investment in Human Capital: Effects on Earnings". *Journal of Political Economy* 70: 9-49.

[Article](#) [Google Scholar](#)

Boerner, Christopher and Jeffrey Macher. 2002. "Transaction Cost Economics: A Review and Assessment of the Empirical Literature". Unpublished manuscript.

[Google Scholar](#)

Brennan, G. and James Buchanan. 1985. *The Reason of Rules*. Cambridge: Cambridge University Press.

[Google Scholar](#)

Buchanan, James M. 1975. "A Contractarian Paradigm for Applying Economic Theory". *American Economic Review* 65: 225-230.

[Google Scholar](#)

———. 1987. "The Constitution of Economic Policy". *American Economic Review* 77: 243-250.

[Google Scholar](#)

———. 2001. "Game Theory, Mathematics, and Economics," *Journal of Economic Methodology* 8: 27-32.

[Google Scholar](#)

Buchanan, James M. and G. Tullock. 1962. *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. Ann Arbor, MI: University of Michigan Press.

[Google Scholar](#)

Coase, Ronald H. 1937. "The Nature of the Firm". *Economica* 4: 386-405.

[Article](#) [Google Scholar](#)

———. 1960. “The Problem of Social Cost”. *Journal of Law and Economics* 3: 1-44.

[Google Scholar](#)

———. 1972. “Industrial Organization: A Proposal for Research” in V. R. Fuchs (ed), *Policy Issues and Research Opportunities in Industrial Organization*. New York: National Bureau of Economic Research, pp. 59-73.

[Google Scholar](#)

———. 1984. “The New Institutional Economics”. *Journal of Institutional and Theoretical Economics* 140: 229-231.

[Google Scholar](#)

———. 1992. “The Institutional Structure of Production”. *American Economic Review* 82: 713-719.

[Google Scholar](#)

Crocker, Keith J. and Scott E. Masten. 1991. “Pretia ex Machina? Prices and Process in LongTerm Contracts”. *Journal of Law and Economics* XXXIV(1): 69-99.

[Article](#) [Google Scholar](#)

———. 1996. “Regulation and Administered Contracts Revisited: Lessons from Transaction-Cost Economics for Public Utility Regulation”. *Journal of Regulatory Economics* 8: 5-39.

[Google Scholar](#)

Demsetz, Harold. 1968. “Why Regulate Utilities?” *Journal of Law and Economics* 11: 55-66.

[Article](#) [Google Scholar](#)

Dixit, Avinash K. 1996. *The Making of Economic Policy: A Transaction-Cost Politics Perspective*. Boston, MA: MIT Press.

[Google Scholar](#)

Easterbrook, Frank and D. Fischel. 1986. "Close Corporations and Agency Costs". *Stanford Law Review* 38: 271-301.

[Article](#) [Google Scholar](#)

Fama, Eugene F. and Michael C. Jensen. 1983. "Separation of Ownership and Control". *Journal of Law and Economics* 26: 301-326.

[Article](#) [Google Scholar](#)

Friedman, Milton. 1962. *Capitalism and Freedom*, Chicago, IL: University of Chicago Press.

[Google Scholar](#)

Gely, Rafael and Pablo T. Spiller. 1990. "A Rational Choice Theory of Supreme Court Statutory Decisions with Applications to the *State Farm* and *Grove City* Cases". *Journal of Law, Economics, and Organization* 6(2): 263-300.

[Google Scholar](#)

Georgescu-Roegen, Nicholas. 1971. *The Entropy Law and Economic Process*. Cambridge, MA: Harvard University.

[Google Scholar](#)

Goldberg, Victor P. 1976. "Regulation and Administered Contracts". *Bell Journal of Economics* 7(2): 426-448.

[Article](#) [Google Scholar](#)

Goldberg, Victor P. and John R. Erickson. 1987. "Quantity and Price Adjustment in Long-Term Contracts: A Case Study of Petroleum Coke". *Journal of Law and Economics* XXX(2): 369-398.

[Article](#) [Google Scholar](#)

Hart, Oliver. 1995. *Firms, Contracts and Financial Structure*. New York: Oxford University Press.

[Book](#) [Google Scholar](#)

Hayek, Friedrich. 1945. "The Use of Knowledge in Society". *American Economic Review* 35: 519-530.

[Google Scholar](#)

Holmstrom, Bengt and Jean Tirole. 1989. "The Theory of the Firm" in R. Schmalensee and R. Willig (eds.), *Handbook of Industrial Organization*. New York: Oxford University Press.

[Google Scholar](#)

John, George and Barton A. Weitz. 1988. "Forward Integration into Distribution: An Empirical Test of Transaction Cost Analysis". *Journal of Law, Economics, and Organization* 4(2): 337-355.

[Google Scholar](#)

Joskow, Paul L. 1985. "Vertical Integration and Long-Term Contracts: The Case of CoalBurning Electric Generating Plants". *Journal of Law, Economics, and Organization* 1(1): 33-80.

[Google Scholar](#)

———. 1987. “Contract Duration and Relationship-Specific Investments: Empirical Evidence from Coal Markets”. *American Economic Review* 77(1): 168-185.

[Google Scholar](#)

———. 2000. “Transaction Cost Economics and Competition Policy”. Unpublished manuscript.

[Google Scholar](#)

Kenney, Roy W. and Benjamin Klein. 1983. “The Economics of Block Booking,” *Journal of Law and Economics* XXVI(3): 497-540.

[Article](#) [Google Scholar](#)

Klein, Benjamin. 1988. “Vertical Integration as Organizational Ownership: The Fisher Body-General Motors Relationship Revisited”. *Journal of Law, Economics, and Organization* 4 (1): 199-213.

[Google Scholar](#)

Leffler, Keith B. and Randal R. Rucker. 1991. “Transactions Costs and the Efficient Organization of Production: A Study of Timber-Harvesting Contracts”. *Journal of Political Economy* 99 (5): 1060-1087.

[Article](#) [Google Scholar](#)

Levy, Brian and Pablo T. Spiller. 1994. “The Institutional Foundations of Regulatory Commitment: A Comparative Analysis of Telecommunications Regulation”. *Journal of Law Economics, and Organization* 10(2): 201-246.

[Google Scholar](#)

Lyons, B. R. 1996. “Empirical Relevance of Efficient Contract Theory: Inter-Firm

Contracts". *Oxford Review of Economic Policy* 12(4): 27-52.

[Article](#) [Google Scholar](#)

Makowski, L. and J. Ostroy. 2001. "Perfect Competition and the Creativity of the Market". *Journal of Economic Literature* 32: 479-535.

[Google Scholar](#)

Masten, Scott E. 1984. "The Organization of Production: Evidence from the Aerospace Industry". *Journal of Law and Economics* XXVII(2): 403-417.

[Article](#) [Google Scholar](#)

Masten, Scott E. and Keith J. Crocker. 1985. "Efficient Adaptation in Long-Term Contracts: Take-or-Pay Provisions for Natural Gas". *American Economic Review* 75(5): 1083-1093.

[Google Scholar](#)

———. 2000. "Econometrics of Contracts: An Assessment of Developments in the Empirical Literature on Contracting". *Revue D'Economie Industrielle* 92: 215-236.

[Google Scholar](#)

———. 1993. "United States versus United Shoe Machinery Corporation: On the Merits". *Journal of Law and Economics* XXXVI(1) (Part 1): 33-70.

[Google Scholar](#)

James W. Meehan, Jr., and Edward A. Snyder. 1991. "The Costs of Organization". *Journal of Law, Economics, and Organization* 7Z(1): 1-25.

[Google Scholar](#)

Merton, Robert. 1936. "The Unanticipated Consequences of Purposive Social Action". *American Sociological Review* 1: 894-904.

[Article](#) [Google Scholar](#)

Michels, R. 1962. *Political Parties*. Glencoe, IL: Free Press.

[Google Scholar](#)

Monteverde, Kirk and David J. Teece. 1982. "Supplier Switching Costs and Vertical Integration in the Automobile Industry". *Bell Journal of Economics* 13(1): 206-213.

[Article](#) [Google Scholar](#)

Mulherin, J. Harold (1986): "Complexity in Long-Term Contracts: An Analysis of Natural Gas Contractual Provisions". *Journal of Law, Economics, and Organization* 2(1): 105-117.

[Google Scholar](#)

Nelson, R. R. and S. G. Winter. 1982. *An Evolutionary Theory of Economic Change*. Cambridge: Belknap Press.

[Google Scholar](#)

Newell, A. and Herbert Simon. 1972. *Human Problem Solving*. Englewood Cliffs, NJ: PrenticeHall.

[Google Scholar](#)

North, Douglas. 2000. "A Revolution in Economics" in Claude Menard (ed.), *Institutions, Contracts, and Organizations*. Northampton, MA: Edward Elgar, pp. 37-42.

[Google Scholar](#)

Palay, Thomas M. 1984. "Comparative Institutional Economics: The Governance of Rail Freight Contracting". *Journal of Legal Studies* XIII(2): 265-287.

[Article](#) [Google Scholar](#)

Peltzman, Sam. 1991. "The Handbook of Industrial Organization: A Review Article". *Journal of Political Economy* 99: 201-217.

[Article](#) [Google Scholar](#)

Peltzman, Sam and Michael Whinston. 2000. *Deregulation of Network Industries*. Washington, DC: Brookings Institution Press.

[Google Scholar](#)

Posner, Richard A. 1972. "The Appropriate Scope of Regulation in the Cable Television Industry". *Bell Journal of Economics* 3: 98-129.

[Article](#) [Google Scholar](#)

———. 1986. *Economic Analysis of Law*, 3rd edn. Boston: Little Brown.

[Google Scholar](#)

Priest, George L. 1993. "The Origins of Utility Regulation and the 'Theories of Regulation' Debate". *Journal of Law and Economics* XXXVI(1) (Part 2): 289-323.

[Article](#) [Google Scholar](#)

Reder, M. W. 1999. *Economics: The Culture of a Controversial Science*. Chicago IL: University of Chicago Press.

[Google Scholar](#)

Rindfleisch, A. and Jan Heide. 1997. "Transaction Cost Analysis: Past, Present and Future Applications". *Journal of Marketing* 61: 30-54.

[Article](#) [Google Scholar](#)

Robbins, Lionel. 1932. *An Essay on the Nature and Significance of Economic Science*. New York: New York University Press.

[Google Scholar](#)

Rothband, Murray. 1987. "Catalactics" in J. Eatwell, M. Milgate, and P. Newman (eds.), *The New Palgrave: A Dictionary of Economics*, Vol. 1. New York: The Stockton Press, pp. 377-378.

[Google Scholar](#)

Salanié, Bernard. 1997. *The Economics of Contracts: A Primer*. Cambridge, MA: The MIT Press.

[Google Scholar](#)

Scott, R. W. 1992. *Organizations*. Englewood Cliffs, NJ: Prentice-Hall.

[Google Scholar](#)

Selznick, Philip. 1949. *TVA and the Grass Roots*. Berkeley, CA: University of California Press.

[Google Scholar](#)

———. 1950. "The Iron Law of Bureaucracy". *Modern Review* 3: 157-165.

[Google Scholar](#)

Shelanski, Howard A. and Peter G. Klein. 1995. "Empirical Research in

Transaction Cost Economics: A Review and Assessment". *Journal of Law, Economics, and Organization* 11: 335-361.

[Google Scholar](#)

Shultz, George. 1995. "Economics in Action". *American Economic Review* 85: 1-8.

[Google Scholar](#)

Simon, Herbert A. 1947. *Administrative Behavior*. New York: The Free Press.

[Google Scholar](#)

———. 1957a. *Administrative Behavior*. New York: Macmillan.

[Google Scholar](#)

———. 1957b. *Models of Man: Social and Rational; Mathematical Essays on Rational Human Behavior in a Social Setting*. New York: Wiley.

[Google Scholar](#)

———. 1983. *Reason in Human Affairs*. Stanford, CA: Stanford University Press.

[Google Scholar](#)

———. 1991. "Organizations and Markets". *Journal of Economic Perspectives* 5: 25-44.

[Google Scholar](#)

Solow, Robert. 2001. "A Native Informant Speaks". *Journal of Economic Methodology* 8: 111-112.

[Article](#) [Google Scholar](#)

Thompson, J. S. 1967. *Organizations in Action: Social Science Bases of Administrative Theory*. New York: McGraw-Hill.

[Google Scholar](#)

Varian, Hal. 2002. "If There Was a New Economy, Why Wasn't There a New Economics?" *New York Times*, January 17, C2.

[Google Scholar](#)

Weingast, Barry and William J. Marshall. 1988. "The Industrial Organization of Congress: or, Why Legislatures, Like Firms, Are Not Organized as Markets". *Journal of Political Economy* 96(1): 132-163.

[Article](#) [Google Scholar](#)

Werin, Lars. 2000. "Ronald Coase and the New Microeconomics" in Claude Menard (ed.), *Institutions, Contracts, and Organizations*. Northampton, MA: Edward Elgar, pp. 42-47.

[Google Scholar](#)

Williamson, Oliver E. 1975. *Markets and Hierarchies: Analysis and Antitrust Implications*. New York: The Free Press.

[Google Scholar](#)

———. 1976. "Franchise Bidding for Natural Monopolies—In General and with Respect to CATV". *Bell Journal of Economics* 7(1): 73-104.

[Google Scholar](#)

———. 1979. "Assessing Vertical Market Restrictions: Antitrust Ramifications of the Trans-action Cost Approach". *University of Pennsylvania Law Review* 127: 953-993.

———. 1985. *The Economic Institutions of Capitalism*. New York: The Free Press.

[Google Scholar](#)

———. 1988. “Corporate Finance and Corporate Governance”. *Journal of Finance* 43: 567- 591.

[Google Scholar](#)

———. 1989. “Transaction Cost Economics” in Richard Schmalensee and Robert Willig, (eds.), *Handbook of Industrial Organization*, Vol. 1. New York: North Holland, pp. 136-184.

[Google Scholar](#)

———. 1994. “Evaluating Coase”. *Journal of Economic Perspectives* 8: 201-204.

[Google Scholar](#)

———. 1996. *The Mechanisms of Governance*. New York: Oxford University Press.

[Google Scholar](#)

———. 1998. “Transaction Cost Economics: How It Works; Where It Is Headed”. *The Economist* 146: 23-58.

[Google Scholar](#)

———. 1999. “Public and Private Bureaucracies”. *Journal of Law, Economics, and Organization* 15: 306-342.

[Google Scholar](#)

———. 2002a. “The Theory of the Firm as a Governance Structure: From Choice to Contract”. *Journal of Economic Perspectives* 16: 171-195.

[Google Scholar](#)

———. 2002b. “The Lens of Contract: Private Ordering”. *American Economic Review* 92: 438-443.

[Google Scholar](#)

Williamson, Oliver E. and Janet Bercovitz. 1996. “The Modern Corporation as an Efficiency Instrument” in Carl Kaysen (ed.), *The American Corporation Today*. New York: Oxford University Press, pp. 327-359.

[Google Scholar](#)

Author information

Authors and Affiliations

Department of Economics, University of California, Berkeley, CA, USA

Oliver E. Williamson

Editor information

Editors and Affiliations

Université de Paris, 106 Bd de l’Hôpital, 75647, Paris, France

Claude Ménard

The Ronald Coase Institute, 5610 Wisconsin Ave, 20815, Chevy Chase, MD, USA

Mary M. Shirley

Rights and permissions

Copyright information

© 2008 Springer-Verlag Berlin Heidelberg

About this chapter

Cite this chapter

Williamson, O.E. (2008). Transaction Cost Economics. In: Ménard, C., Shirley, M.M. (eds) Handbook of New Institutional Economics. Springer, Berlin, Heidelberg. https://doi.org/10.1007/978-3-540-69305-5_4

[.RIS↓](#) [.ENW↓](#) [.BIB↓](#)

DOI	Publisher Name	Print ISBN
https://doi.org/10.1007/978-3-540-69305-5_4	Springer, Berlin, Heidelberg	978-3-540-77660-4
Online ISBN	eBook Packages	
978-3-540-69305-5	Business and Economics	
	Economics and Finance (R0)	

Keywords

[Vertical Integration](#) [Price Discovery](#) [Petroleum Coke](#) [Spot Market](#)

[Transaction Cost Economic](#)

These keywords were added by machine and not by the authors. This process is experimental and the keywords may be updated as the learning algorithm improves.

Publish with us

Search

Search by keyword or author



Navigation

[Find a journal](#)

[Publish with us](#)

[Track your research](#)
