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Transaction Cost Economics

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Handbook of New Institutional Economics

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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.

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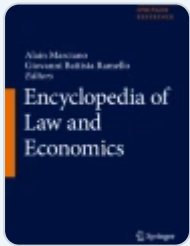
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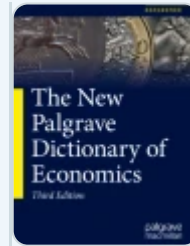
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Cite this chapter

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

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