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## Transaction Cost Economics

[Oliver E. Williamson](#)

Chapter

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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 wellsuited 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.

Keywords

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[Price Discovery](#)

[Petroleum Coke](#)

[Spot Market](#)

[Transaction Cost Economic](#)

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## Author information

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### Authors and Affiliations

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

Oliver E. Williamson

## Editor information

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### Editors and Affiliations

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

Claude Ménard

**The Ronald Coase Institute, 5610 Wisconsin  
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