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## Empirical Research in Transaction Cost Economics: Challenges, Progress, Directions

[Scott E. Masten](#)

Chapter

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### Abstract

Reading the above quotations, one might reasonably conclude that no progress at all had occurred in the development and testing of transaction cost arguments in the interval between Fischer's and Simon's appraisals. But while Fischer may have been justified in his criticism, Simon clearly is not. Economists' initial pessimism about the prospects for deriving testable implications from transaction cost reasoning has turned out to be grossly misplaced. Theoretical advances beginning in the 1970s

spurred a profusion of empirical research that continues unabated. As recent surveys amply document (see Joskow, 1988; Shelanski, 1992; Crocker and Masten 1994), “the research that must be performed to estimate the exogenous parameters and to test the theory” is well underway.

“Transaction costs have a well-deserved bad name as a theoretical de vice... [partly] because there is a suspicion that almost anything can be rationalized by invoking suitably specified transaction costs.”

S. Fischer, 1977 (as quoted in Williamson, 1979)

“Since [transaction costs] are typically introduced into the analysis in a casual way, with no empirical support except to appeal to introspection and common sense, mechanisms of these sorts have proliferated in the literature, giving it a very *ad hoc* flavor.... Until [the empirical research that must be performed to estimate the exogenous parameters and to test the theory empirically] has been carried out..., the new institutional economics and related approaches are acts of faith, or perhaps of piety.”

H. Simon, 1991

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