

Microeconomics, Module 18, “Externalities – Transaction Costs” (chapter 13)

*Required reading:*

(The attached PDF file has better formatting.)

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{The Landsburg textbook is excellent. We say to read certain sections and to skip others. This does not mean that certain sections are better; it means that the homework assignments and exam problems are based on the sections that you must read for this course. Some of the skipped sections are fascinating, but they are not tested.}

Read section 13.3, transaction costs, on pages 453-458, through the end of the AIDS example. Understand (i) how transaction costs affect the Coase analysis and (ii) the types of transaction costs.

Skip pages 459-466, until “Normative Theories of the Common Law.” Read the two sub-sections on pages 466-467, until the summary. This is important for understanding how the economic analysis of externalities is reflected in U.S. society, but the final exam will not test these two sub-sections.