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Using Costs of Exchange as a Tool To Investigate Economic Performance

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**Good economic
performance
depends on
low transaction costs.**



To reduce transaction costs
you need to
measure transaction costs.

Why?



To reduce transaction costs you need to know:

- **How big** are they?
- **Which** are the highest?
- **Who** pays more – or less?
- **What happens** after reforms?

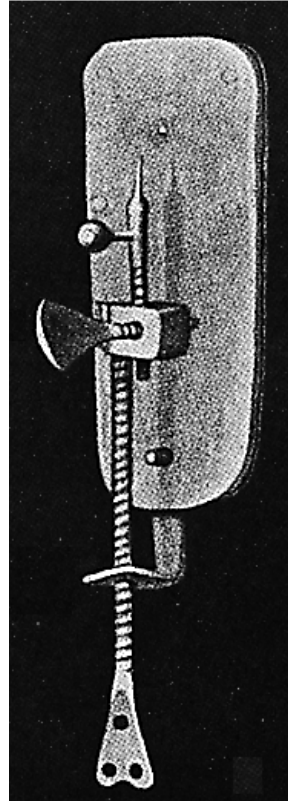


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**To answer these questions,
we need a new instrument.**



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Our instrument: COE

- Measures what?

Actual costs people incur

when they are carrying out a **specific transaction**

- Measures how?

Asks those who carried out the transaction about detailed costs



Our instrument: COE

- Measures what?
Costs of exchange
- Measures how?
Surveys and case studies



Cost of exchange $C_{ijkm} =$

opportunity cost in total resources (money, time, goods)

for

an individual with characteristics **i**

to obtain a good (or accomplish a goal) **j**

using a given form of exchange **k**

in institutional setting **m**



How do we measure COE?

Value of entrepreneurs' (and staff) time
spent registering

plus

Payments to facilitators,
Official fees.



We also asked

- What would you charge someone else to do this process for them?
- Why did you become formal?
- What made the process harder/easier?
- What is the biggest disadvantage to becoming formal?



We looked for variation in costs

- By size of firm
- By sex
- By nationality
- By prior experience

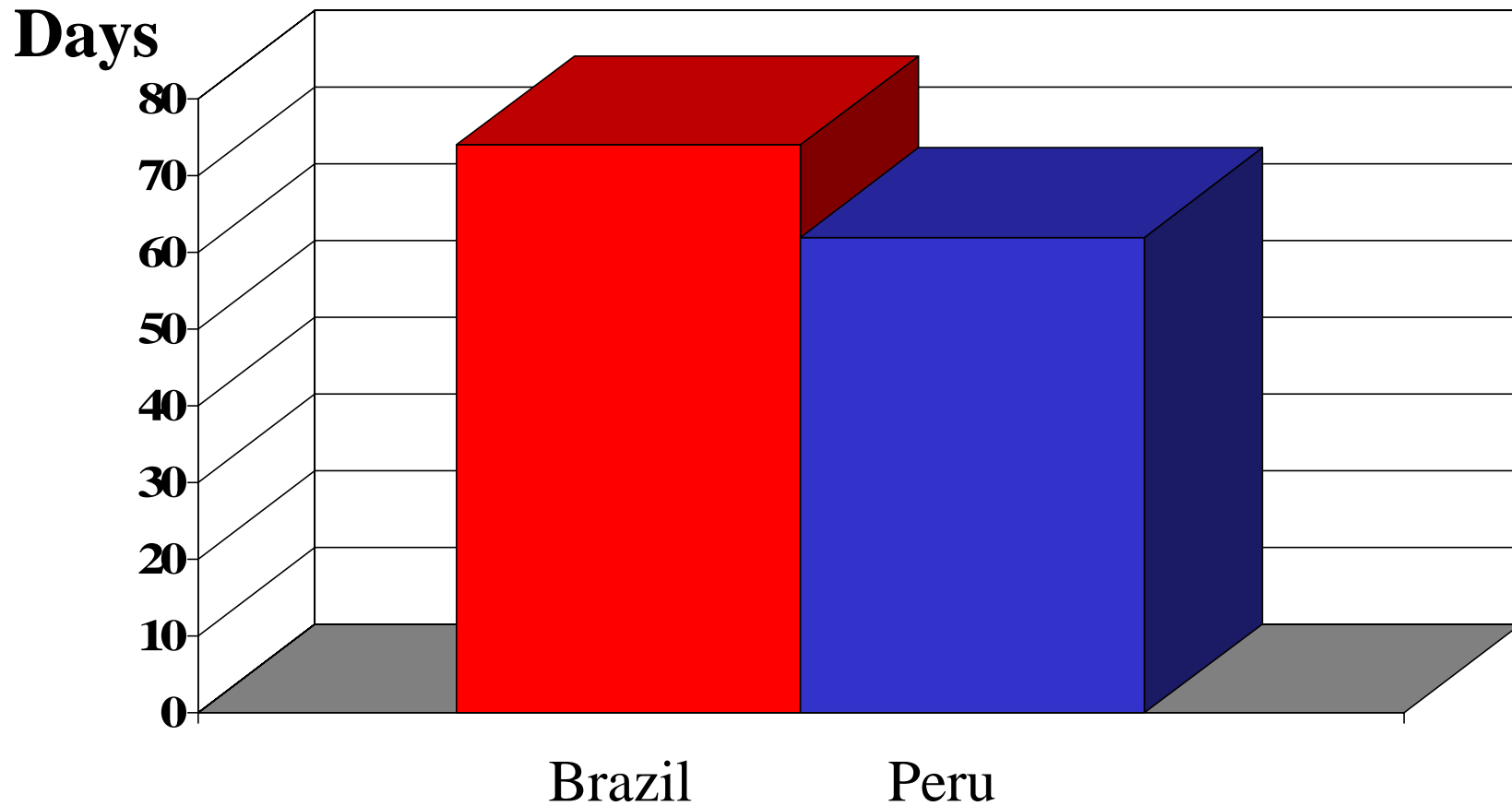


Our process

1. Road map the formal requirements
2. Case study of a single firm
3. Redesign template to actual steps and circumstances
4. Small pilot
5. Full survey

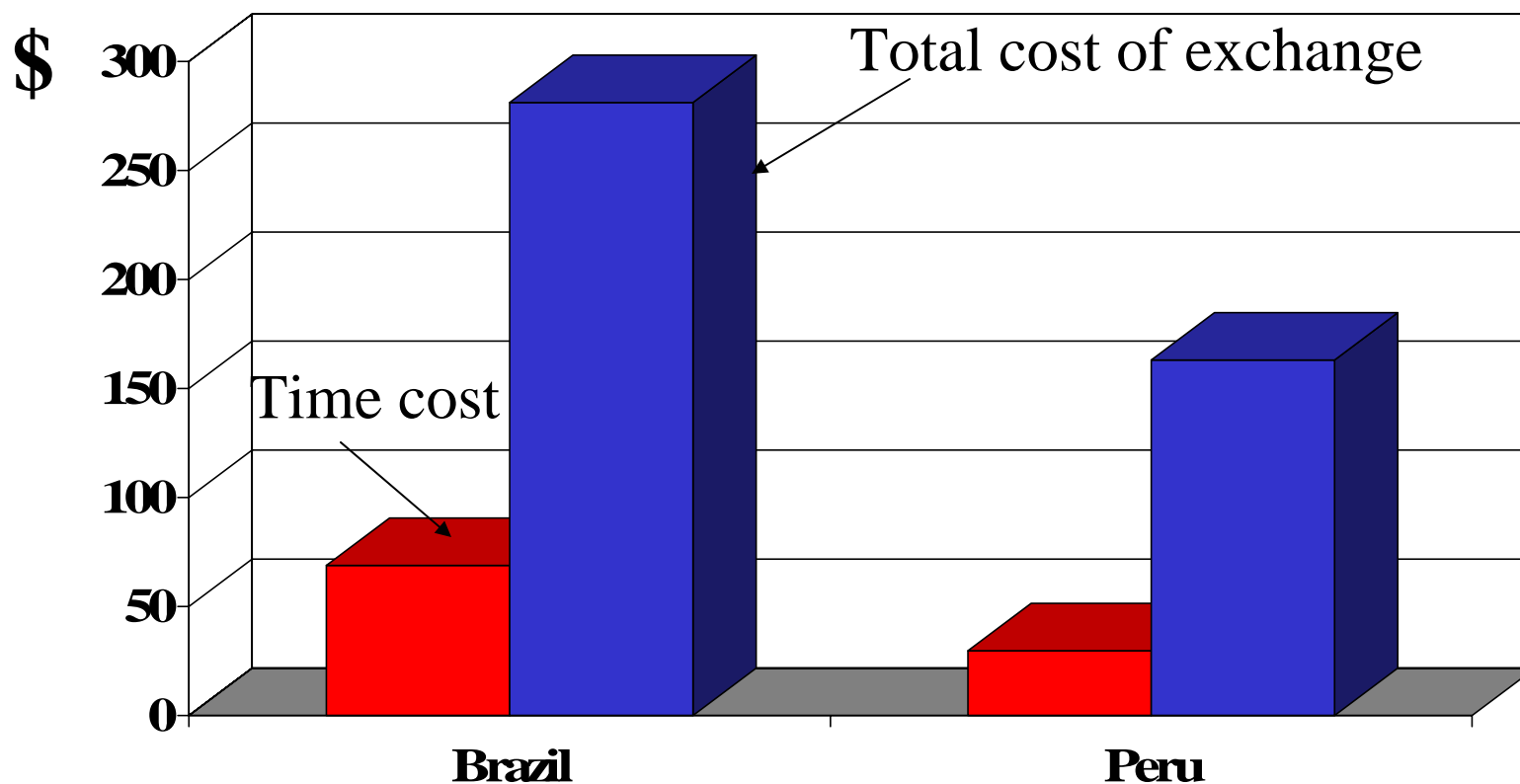


Length of time to register





Time costs and total costs of exchange





Costs varied widely in Brazil

Firms paying <\$150	Firms paying >\$400
33%	17%



Costs varied widely in Peru

Firms paying <\$50	Firms paying >\$200
34%	13%



Why is COE useful?

- Informs concerned citizens & officials.
- Measures effects of reforms over time
- Reveals bottlenecks



Why is COE useful?

- Helps new entrepreneurs know the real costs
- Reduces officials' discretion
- Encourages competition among jurisdictions



What's next?

- Do more surveys to
 - Compare across countries
 - Compare over time
 - Compare individuals, groups
- Measure other kinds of transactions
- Encourage the use of local expertise