

# The Burden of Transaction Costs

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## INTRODUCTION

What you will find in this paper may not be conventional wisdom but still something more important than the facts which inhibit in society throughout the course of history and transactions cost. This paper will take you on a course of market efficiencies and fundamental assumptions which are flawed from the beginning. The fundamental assumptions that are considered to be flawless but they are.

What is transaction cost

The cost of doing business wouldn't you say but the economists work on the assumptions that there is no transaction cost in a free market but here is the problem if there is no transaction cost. Why do we need enterprises or firms, we can just buy it from the producer and the producer and the consumer would be pareto efficient as in the price at which the producer wants me to buy should be less than what I am willing to pay and we can distribute the difference among us isn't it the pricing mechanism of the modern world so how does an economic model function properly when huge chunk of data is not considered or abandoned either voluntarily and involuntarily. As the nature of the firm is to make profit what is actually stopping them from keeping the price high even in free market. Due to the fact that firms compete in a market for more share with heavy advertisement, bill boards and schemes. The cost burden on consumer will increase just because firms decided to compete. Is it justifiable? The father of modern economics proposed "invisible hand" as in encouraging people to openly trade and increase market competition so  $MR=MC$  AND there are no extra profits but is it actually followed while considering modern economic policies. Policies on tax structure and loans {interest rates} are made by the govt instead of market. There is one thing I cant understand is how can the govt [state} holds the right to print currency. When they know that they wont be in power for more than the time they are taking loan from the central bank. Even though the process has been going on since 1980 in south

America. Making dams no body can use, building huge power plants that are not even cost effective. I think this is

a causality to autocratic regimes and imbalance in the control of state. Throwing lavish parties and self burdening with foreign debt. The foreign aid usually ends up in the hands of business contractors. Once a banker came to meet his friend and one asked the other how you earned so much he told him to look out the window and said 'look at that power plant I build it' and then he asked latter about his success and he replied 'see that dam on the river' and the other said

'no'. Just like in any economic model sad me variables are opted to be negligible but when that variable start affecting the results of the model, it should be Concluded that theory doesn't hold water and if it happens consistently then some serious consideration are to be upheld.

Let's start with a basic market efficiency theory, it has been an underline assumption that markets are efficient as all the market participants have full information and the prices are efficient including the information about the future. If the markets are efficient then discrepancies in the market should not happen but they do as the stock market have a fat tale, meaning due to these irregularities the prices deviate madly over the periods out of no reason. As recession are just market reacting to irregularities in a lump sum way. So this can be concluded that markets do not follow same pattern but it rhymes well. Now let's try to shed some light on the policy making procedures of the govt.

Lets deconstruct the theory of market efficiency in the light of behavioural economics ad transactions cost.

3com owned palm as a conglomerate, 3com decided to sell 5% of palm's shares to raise capital. The day IPO was issued to public the price shoot up without any reason and the price of palm reached 150 dollars (US) and 3com's share was hovering 60-65 at that time. This makes no sense as if 3 com owned Palm, 3com's share price includes Palm's shares. To say that in layman's terms how

can the price of a basket of normal eggs can be less than the price of one egg in the basket just because it is not in the basket anymore. To the market it should not be any different whether the company is owned or is independent at that time. It would be a good opportunity to call on the 3com's shares as when the market will realise Palm is owned by 3Com the share will increase on the other hand a great idea would be to short Palm's shares as it doesn't make any sense in buying it at that price it's supposed to come down.

So if all the players in the market have all the information then this should happen only if there are no arbitrages in the market to make profit off of market inefficiency. Events like this prove that market does not act rationally however it does act as rationally with the information it has. It is the flow of information that proves winners and losers people who get information first does have a better hand than the second one. So as information flows like wave the people who are in centre will get more momentum than who are from the epicentre. That information may come at a price of maybe lobbying, insider trading or any other way. As long as the cost to be incurred for this manipulation is less than the profit. It is in the firm's interest to do so as cost of business is less than the profit earned in the deal

Taxes.

The concept of state has been formed just for the purpose of taxes from Egyptian to current western states. The people who work in Senate or the govt are fundamentally selfish, the empirical evidence proves that US senators at the joining time are poor but when they encash they are millionaires with corporate Lobbying job in hand. If public service is a job of honour then this should not be allowed so how to stop it. If the cost of doing a crime is lower than the incentive to commit it then it is efficient to break the law.

As law of nuisance proves.

Eg ; if becky does not want her roommate Sarah to stop playing drums in the middle of night. They must come to an agreement on the price as in how much Becky values her sleep and Sarah's price not to play drums at night. Let's just say Becky's sleep is worth 10 bucks and Sarah is willing to take 6 bucks to stop playing drums then a price between 10&6 is acceptable by both parties.

The cost of breaking rule should be greater than the incentive to follow it. When the modern states have so much authority & power why don't they fund the regulatory bodies.

The reason is simple as the game is rigged, the decks is stacked and music has already

has already stopped but the party must go on. The politicians are self interested people obviously so the loopholes that need to be there are already there. Do we actually want these people to rule over us when it is clear that they are more selfish than the rest otherwise they would not be in that position at all ;yeah you can say that price's law regulates these hierarchies. Which states that in a given dominance hierarchy square root of the number of people do half the work.

Eg ; a company with 100 workers have 10 people do half the work . So that is how productivity is distributed in the society that is how structures are structured. There should be competent and hardworking people in the places where they should be or in other words people who are smart and hardworking get to position of power & overwhelming responsibilities. But in free market economy it is applicable but when it comes to running a govt or political party this criterion should not be there because a govt is not a company working for money or power even though they are yet it's main purpose is to protect and encourage business that is all. Let the market decide which state will be more capable to handle this. The other works done by the state like public finance on education, food, should be taken by market as things are Entangled in so many ways that it is not possible for the state to even consider lifting the responsibility all they end up doing is inflating the currency and nothing else. The empirical evidence suggests that no govt in history of modern world since gold standard have been abolished have had profitable budget to repay its fiscal deficit instead the star always requires more and more to run social program which are scams no matter where you look. How can the power to tax be levied on our beloved corrupt leaders. The answer to this could be changed in the parameters to consider before buying a govt bond or abolition of Central banks. Simply speaking when an organisation's purpose of existence is to make sure that the money I have would be worth less the next day. I sure am not playing that game

Public policy.

I think the conservative policy making by the states all over the world is largely flawed as if the barriers hence punishment for breaking the law are made stronger then it does put a radical change in the difference as to the number of inmates in prison. We tend to presume that as incarceration time is increased or decreased it would affect the behaviour or decision of the accused.

Eg; as breaking and entering, trespassing and property damages are a common occurrence so

the state decide to increase the jail time for the crime from 10-20 . Does this affect the behaviour of accused. Let's see, A man named Sean who is an African American and is accused of breaking & entering. Now he has a choice before the trial he is given a choice to confess and get 5 years or go to trial and result could be 10 years or free. Is it in his interest to do so to take 5 . Now when Sean and prosecutor both have full information no further evidence is to be approved. The decision totally depends on the judge's mood . Now the dilemma is the judges tend to give lighter sentence in the morning and before lunch time they start giving severe punishment and just after lunch the same cycle is repeated now remember the man is an African American so we don't know the judges point of view at that time as to his experience. So the problem arises with every model is that there is a causality as a small change in the variable may cause dramatic changes due to chaos theory. As to the policy making of the state the reason govt have fiscal budget is to provide people with social care like Obama care.

Now the increase in crime rate is a causality to poor education, now the funding of these schools is more important than the rest. Yeah it could be argued with the Matthew principle but isn't it why we have the concept of state and there reason to tax. To elevate people out of poverty .

#### Digital currency

A digital currency that can be accessed from anywhere on the planet does seem like a good idea but is it.

The concept of state is a bit paradoxical in nature but it certainly has its uses, even though it is an arbitrary idea. The state has been a part of society since the old Testament and history (written). Money has been central force behind the rise and fall of empires in any part of the history . The modern colonisation and before the crusades money has been affected by it in many ways. Gold has played a dramatic role in the course of history as in the Neapolitan war and world War, civil war in US. That brings a problem in the society as the world started ripping apart the key concept of paper currency came into play as it was backed by either silver like pound(British) or gold like the dollar(US). After the world war ended a regulated body was to be put in place which would over look the reconstruction of States which were affected in the war Eg. Japan and western Europe.

A regulatory body would look after the funds and aids provided by the foreign power. So since there were different currencies in Every state with irregularities in gold reserve the dollar was to

be used as a reserve currency which was purely backed by gold at that time. This calmed the situation in reforming affected states but the end of the war does create a vacuum in power which needed to be Adhered as the USSR has already started making Alliances to claim it . The dollar as to be pioneer in proving the power of democracy and free trade which could uplift the people from poverty and bring a better standard of living to masses which have been done quite rapidly. As a society we should be proud to be a part of it as we are uplifting people at such a rate which had never been seen in the history . Then in late 1960 's and early 70's the oil embargo put the dollar and the world market to a halt as either continue to put dollar backed and give in to Saudi Arabia's demands or just change the dollar backed commodity (bonds). So in 1971 president Nixon deregulated the dollar from gold standard and believed that the market shall keep them afloat as trade was good and market was growing and the idea worked dollar and western kept afloat and changed the course of history in 1990's by demolishing soviet Union and brought an empire on its knees .

Now it's time to consider some ideas about a deregulated currency like Bitcoin and Ether could be used and are they a necessary part of the problem which we are facing right when the right wing govt and left wing population is increasing through out the world be it "black lives Matter" Protest or "Charlie Hebdo" Murder.

The state should be a regulatory body in to allow transaction not the free market because the unregulated currency can add will bring more harm than good as with the case of Bitcoin and other digital currencies as the state should be able to monitor the money and it's flows which would not only affect it's policies but the masses too. It does not mean that States are not corrupt in the case they are and they have been. As it is said in the Bible "power corrupts and absolute power corrupts absolutely" So state should be given the job of regulating the paper currency and it's use that's because the state does need executive powers to defend itself against any threat which needs money.

So what's the solution to this problem I think the solution lies with a commodity that has lived in shadows for half a century .Gold has been a primary mode of payment since the age of dawn, it could be bought and sold. It can be stored , in the situation of panic it is there as perfect hedge. Investors such as Warren Buffett does not procure it as an investment as they consider it boring but it is the boring nature of it that makes it cool. 35 dollar an ounce in 1945 to 1880 dollar an ounce in

2020 . As a student of economics I would take that boring investment. Wouldn't you?

The population should move towards a digital currency which is not regulated or a currency that can be physically transported ,which can be brought and sold without any heckling, a commodity that has been in the shadows for too long .

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