

Industrial Organization.

Regulation -

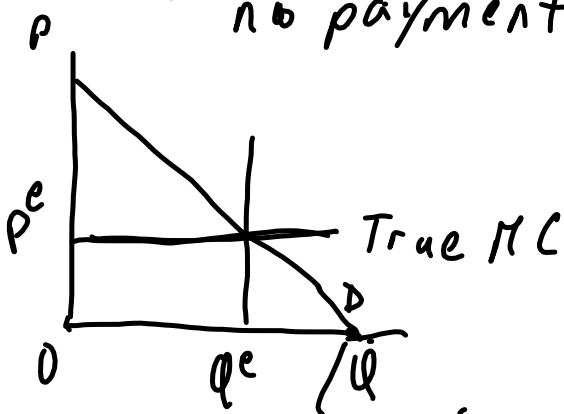
Yossarian

They will do whatever they cannot  
be prevented from doing.

J. Heller, Catch-22

## Market Failures

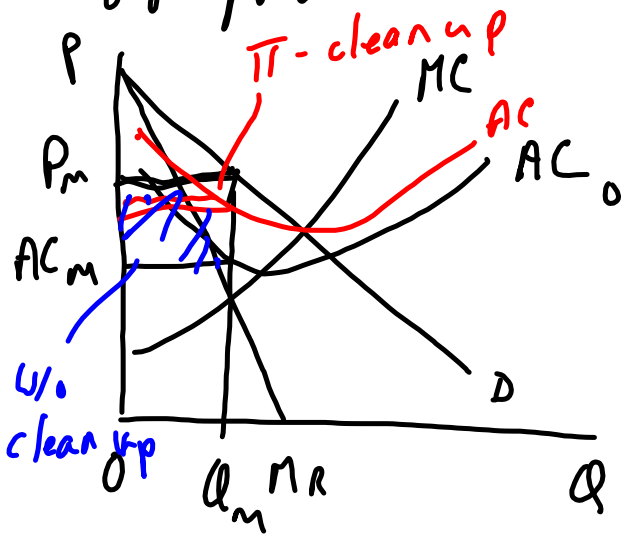
- Property Rights - use a resource (value) without paying  $\rightarrow$  result is over use + degraded in value
- right to exclude is absent so no payment collected (zero price)
- value of resource declines  $\rightarrow$  zero



market without right to exclude.

Who owns - clean air  
clean water ?  
quiet

if right not assigned then use  
resources freely & result lower cost  
of production - so  $\pi \uparrow$



AC<sub>0</sub> - cost without  
clean up effluents  
by product

opposition → pay for resource I was  
using for free

- externality

- if firms object to paying for air &  
water using - why not extend  
to labor?

- why patent?

- regulation - mimic property rights  
by requiring reductions in  
effluents

permit market SO<sub>2</sub>

## Information not symmetric

- exchanges not efficient
- regulations → disclosures
  - origin
  - contents - order of shares
- "cost" argument ?
- consequences = Countrywide - sold securities - risk factor not disclosed
  - AIG
  - Volkswagen - diesel cars
  - Wells Fargo - fake accounts
  - Enron - fake earnings
  - Duke Energy - statements coal ash

Chapters 13 - 17  
Chapter 22 - Information.]

Thursday - about noon

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Due ~~Monday~~ at 5 } hard copy,  
Tuesday } or email.

