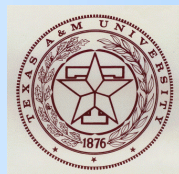


The Challenge of Transaction Costs



What are Transaction Costs?

- “Transaction costs” in economics refers to the costs that must be incurred in order to carry out an economic exchange.
- Three main types of transaction costs are typically considered:
 - Search and information costs
 - Bargaining and contracting costs
 - Policing and enforcement costs



Transaction costs in transferable rights systems

- Markets for transferable rights are new and often small
- Information regarding the market and potential trading partners is not easily obtained
- Bargaining can be difficult because of the novelty of the markets
- Contractual obligations are not easily ensured because of the non-point nature of the sources
- Measurement and verification plus aggregation are costs to consider



Transaction costs can be the death knoll of a tradable permits program

- Fox River tradable loads program required six month review of each trade.
- Hahn and Hester (1989) attribute the failure of that program to these high transaction costs.
- If transaction costs are greater than the benefits created by a trade, trading will not occur.



A successful transferable rights program must:

- Keep transaction costs low relative to benefits from trading.
- But, this must be done while
 - complying with environmental laws;
 - ensuring that environmental performance is achieved;
 - recognizing that market size may be quite small.



Our Speakers

- **Dusty Hall** is currently the Manager of Program Development of The Miami Conservancy District. Dusty has a wide range of experience in water resources management ranging from source water to storm water. He is currently leading an effort to establish a market-based approach to water quality improvement in the Great Miami River Watershed.
- **Kenneth Andrasko** is senior sequestration expert, Climate Change Division, US Environmental Protection Agency. He has worked on climate, agricultural and forestry analysis and project methods since 1989. Recently he was co-author of an EPA report on Greenhouse Gas Mitigation Potential in U.S. Forestry and Agriculture and of a major report on sequestration in Russia by World Resources Institute.

