# Lecture 23: Coase Theorem

From this lecture on, the paradigm has changed from the traditional economics to the new institutional economics. Traditional economics focuses on resource use and income distribution, but lacks the important part of institutional arrangement, which is due to ignoring transaction cost. As mentioned in Lecture 14, transaction cost in broad sense is institutional cost. In fact, even in the previous lectures, we have frequently talked about transaction cost, so it is impossible to completely separate the new institutional economics from traditional economics, and just the contents that are generally classified as new institutional economics will be discussed from this lecture on.

What is more, in the “modern” economics textbooks, there will be some contents involving new institutional economics in the so-called microeconomics, which are classified as “welfare economics”. The mistakes of welfare economics have been criticized in Lecture 5, and will be criticized in detail in the later lectures.

Furthermore, the name of new institutional economics comes from that fact that it concerns about institutional arrangement, and more specifically, institution is contract, so institutional arrangement is the same as contract choice. Thus, in broad sense, “contract economics” is the same as new institutional economics. Similarly, transaction cost is institutional cost in a broad sense, so transaction cost economics is the same as new institutional economics. There is also a “property rights economics” that focuses on the delineation or protection of PPRs. When PPRs are clearly delineated and effectively protected, the price criterion can be used to determine the competition, and there will be no transaction cost caused by rent dissipation. Of course, there is transaction cost in the delineation or protection of PPRs. Thus, property rights economics is a subset of new institutional economics or contract economics or transaction cost economics.