# Section 2: The Relation between Non-Price Criteria and Rent Dissipation

According to the concept of rent dissipation, there is no rent dissipation for price criterion, while there is for non-price criteria. Why? If price criterion is adopted to restrict competition (determine the outcome of competition), the owner of the asset can obtain the rent (the price paid by the users), so the rent will not dissipate, and the legal system of protecting PPRs behind the price criterion also ensures that the price paid by the users is the income they obtained through providing products or services, which means they must make contributions to the society first.

By contrast, if non-price criteria are adopted, there will be more or less rent dissipation. For example, if it is the criterion of first-come-first-served, people will have to wait in a queue and the time spent does not contribute to the society, nor the suppliers of the goods obtain any income. The cost of time in waiting is equal to the price that people would have paid if price criterion is used, so the rent dissipates.

If it is the criterion of force, people will invest in weapons, which will inevitably cause the scarce resources to be diverted from production to weapons, resulting in a decline in the output of the society. On the other hand, bloodshed and destruction caused by fighting also reduce social wealth. It is said that during the “gold rush” in California, the criteria of first-come-first-served and force were mixed to determine the ownership of the discovered gold, so people raised the sled dog very strong in order to reach the scene as quickly as possible. If there were still many people arriving at the same time, they would fight with each other.

If it is the criterion of seniority, which means the older can get higher income, one will choose to just sit there doing nothing to wait for becoming older, so his contribution to the society will be marginally lower than the cost paid by the society to him. He would have increased his contribution if he worked harder instead of waiting to become older, so the rent of his labor has dissipated.

If it is the criterion of hierarchy, which means the superior has the right to decide the distribution of wealth, people will be keen on developing interpersonal relationships such as flattery, which is not helpful for increasing production and also result in a decline in the output of the society.

What is the relationship between Coase theorem and rent dissipation? According to the first version of Coase theorem, the delineation of right is an essential prelude to market transactions, while the essence of market transaction is precisely price criterion. There will be rent dissipation when there is no owner of assets, so the outcome of competition does not determined by price criterion (price is income or rent from the owner’s perspective), but non-price criteria that lead to the decline in the value of the assets. Thus, if non-price criteria are adopted in reality, it is probably due to the lack of delineation of rights.

Of course, there is transaction cost in reality. Even if there is delineation of rights, the transaction cost (including information cost) of price adjustment may cause seemingly inequality of supply and demand temporally, so there will be the phenomena of non-price criteria such as “queuing”. As mentioned in Lecture 7, there are different fluctuation frequencies of price in the supermarket and the farmers market, which is an example. It is the owners of the vegetables who directly sell them in the farmers market, while it is the front-line employees who are not the owners in the supermarkets, so the delineation of the rights is somewhat vague in the latter case. The information about the change in supply and demand needs to be passed to the owner (the boss) of the supermarket, and then the instruction of price adjustment also needs to be passed to the front-line employees, so there is obviously higher transaction cost (information cost and the cost of price adjustment) in the supermarket than in the farmers market.

On the other hand, as mentioned in Lecture 17, the serious queuing when a new generation of iPhone is for sale is due to the lower price than the equilibrium voluntarily and deliberately charged by Apple Inc. Although there is rent dissipation for this non-price criterion, but the queuing has an effect similar to advertisement, which is beneficial to Apple Inc. In other words, even if there is clear delineation of rights, people may still choose to adopt non-price criterion voluntarily, because the rent dissipation is possible to exchange for the reduction of transaction cost. According to the equal marginal principle, the rent dissipation caused by non-price criteria should be marginally equal to the transaction cost reduced.