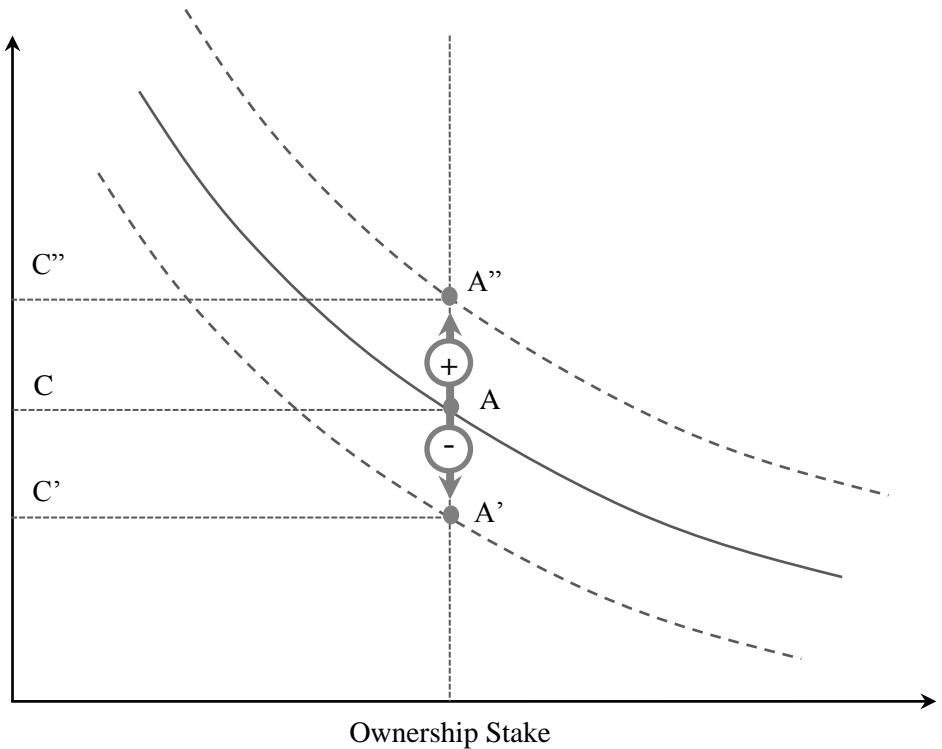


Cost of Extraction of Private Benefits of Control (costs involved in earnings shifting)



Improvement in quality of the institutions of *collective action and transparency* shall better limit negative externality caused due to outward income shifting. This in turn reflects in increased costs of diversion ($C'' > C$), or an upward shift in the cost curve, *ceteris-paribus* (shifting equilibrium from A to A'').



Improvement in quality of the institutions of *property rights and contracting* facilitates market contracting. This in turn reflects in reduced costs of transactions designed for diversion as well ($C' < C$). Resulting a downward shift in the cost curve, *ceteris-paribus* (shifting equilibrium from A to A').