Class #8: Property Rights

- RAT # 3
- Don’t forget to put away all electronic devices until after the tRAT.
- Did you receive an e-mail from Teammates.com?

Efficient property rights

- **Transferability** -- owners can fully transfer the asset and all the associated benefits or costs to others
- **Enforceability** -- owner’s rights are secure
- **Exclusivity** -- all benefits and costs accrue only to the owners of an asset.
… he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain; and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it.

Adam Smith, The Wealth of Nations
Chapter 2 online at http://www.gutenberg.org/files/3300/3300-h/3300-h.htm

In other words, even Adam Smith realized that sometimes the “invisible hand” doesn’t promote the best interests of society.
In general, how do inefficiencies arise when each property right fails?

- **Transferability** -- owners are able to fully transfer the asset and all the associated benefits or costs to others (though they don’t have to).
- **Enforceability** -- owner’s rights are secure.
- **Exclusivity** -- all benefits and costs accrue only to the owners of an asset.

*Note: inequity and unfairness does not necessarily mean that there are inefficiencies. An inefficiency is present if resources are not being used to maximize the net benefits to the economy.*

**Failures of Transferability**

- It is either illegal or impossible (or just difficult) to transfer something to someone else.
- Examples:
  - Selling drugs
  - Real estate with restrictions
  - Others
- How do we see a loss in societal net benefits when transferability is not (fully) satisfied?

**Failures of Enforceability**

- Property is not secure, so someone can take it without your permission.
- Examples:
  - High crime areas
  - Squatters
  - Poor enforcement of copyright or patent laws
  - Others
- How do we see a loss in societal net benefits when enforceability is not (fully) satisfied?
 Failures of **Exclusivity**

- Benefits or costs associated with one agent’s actions affect others without their consent.
- Examples:
  - Pollution
  - Education
  - Others
- When enforceability is not satisfied, there is an *externality*. This will be a major focus of this class.

 A related issue: Rivalry

- **Rivalry**: A benefit generated by a good is *rival* if, when one person receives that benefit, others do not. From an efficiency perspective, rivalry is desirable.
- What’s an example of a *rival* good or service?
- What’s an example of a *non-rival* good or service?

 **Article #1**

*Bored of the ring*

- Consider an Aggie Ring as discussed in the article. For each characteristic, indicate if it is Fully Satisfied, Mostly Satisfied, Partly Satisfied, or Not Satisfied.
- **T** (Transferability)
- **En** (Enforceability)
- **Ex** (Exclusivity)
  
  Write 3 letters on your white board & for M, P or N, a paragraph # where this is seen
So what?

• How does the lack of complete property rights lead to a socially undesirable (inefficient) outcome?

Article #2
Water proposal could devastate Texas rice industry

• Consider water rights held by rice farmers in Texas as discussed in the article. For each characteristic, indicate if it is Fully Satisfied, Mostly Satisfied, Partly Satisfied, or Not Satisfied.

• T (Transferability)
• En (Enforceability)
• Ex (Exclusivity)
  Write 3 letters on your white board & for M, P or N, a paragraph # where this is seen

So what?

• How does the lack of complete property rights lead to a socially undesirable (inefficient) outcome?
Article #3
Rancher feuds with feds over water

- Consider water in Fred Conway’s stock pond as discussed in the article. For each characteristic, indicate if it is Fully Satisfied, Mostly Satisfied, Partly Satisfied, or Not Satisfied.
- T (Transferability)
- En (Enforceability)
- Ex (Exclusivity)
  Write 3 letters on your white board & for M, P or N, a paragraph # where this is seen

So what?

- How does the lack of complete property rights lead to a socially undesirable (inefficient) outcome?

Rivalry

- What happens when a good provides benefits that are non-rival?
- Will the market provide the efficient quantity of that good?
Rivalry

• What happens when a good provides benefits that are non-rival?
• Will the market provide the efficient quantity of that good?
• Answer: Not if there are free riders.

So what?

• How does the property rights failure lead to a socially undesirable outcome?
• Do the incentives exist that lead to socially efficient behavior?
• Does private behavior lead to socially efficient outcomes?
Article #4
Everglades Resident OKs $4.95M Buyout

- For each characteristic of efficient property rights, indicate if it is violated. Write 0 if the characteristic is not violated or paragraph # that most clearly shows this if it is.
- TN (Transferability)
- En (Enforceability)
- Ex (Exclusivity)

So what?
- How does the property rights failure lead to a socially undesirable outcome?
- Do the incentives exist that lead to socially efficient behavior?
- Does private behavior lead to socially efficient outcomes?

Article #5
It’s Now Legal to Catch a Raindrop

- For each characteristic of efficient property rights, indicate if it is violated. Write 0 if the characteristic is not violated or paragraph # that most clearly shows this if it is.
- TN (Transferability)
- En (Enforceability)
- Ex (Exclusivity)
So what?
• How does the property rights failure lead to a socially undesirable outcome?
• Do the incentives exist that lead to socially efficient behavior?
• Does private behavior lead to socially efficient outcomes?

Article #6
Cubans Set for Big Change: Right to Buy Homes
• For each characteristic of efficient property rights, indicate if it is violated. Write 0 if the characteristic is not violated or paragraph # that most clearly shows this if it is.
• TN (Transferability)
• En (Enforceability)
• Ex (Exclusivity)

So what?
• How does the property rights failure lead to a socially undesirable outcome?
• Do the incentives exist that lead to socially efficient behavior?
• Does private behavior lead to socially efficient outcomes?
The Aggie Ring

- Based on the principle of social efficiency, why should sales be allowed?
- Based on the principle of social efficiency, why should sales not be allowed?