

Notes on Smoking Regulation

Another interesting topic to discuss is the ban on smoking on campus that began this year. First of all, let us consider who are affected. Think of them as being either of two types: smokers and nonsmokers. We then approach this situation with the following questions to analyze:

- 1) What can both parties do to reduce the damage?
- 2) Would the exchange in the right to smoke involve high transaction costs?
- 3) Who should have the rights? Again, consider who would end up with the rights when transaction costs are zero.

This is a matter of discussion given that we do not know everyone's preferences and information about all available technology. Just remember that regulation can also be inefficient if not analyzed prior to its passage.

Notes on Rules of Thumb

Rules of thumb are substitutes for more costly information systems. They jointly economize on the cost of information (may not be needed at all) and on the cost brought by the misallocation of entitlements. Lastly, the most efficient rules will tend to survive. Let's consider the case of stop signs. There are many different possibilities to determine who goes first in a four-way intersection as listed below:

- a) Price system – costly since you need to collect information about how much people value going first (collection of information is costly)
- b) Economists doing cost-benefit study – hiring economists is costly
- c) Majority rule – work most of the time but how do you determine the majority? The number of drivers? This might take more time and effort to apply.
- d) Rank – the rule that higher ranked cars go first may not work well since people will just get an incentive to purchase higher ranked cars
- e) Skill – really difficult to determine relative skill
- f) First come, first serve – cheap to observe. Also, on average, this method is correct and easy to use.
- g) Random – chaotic and has better alternatives such as right goes first (At the right of which driver, however?)

Now, considering skill as an allocator is also very important. It is used in sports primarily because it procures derived demand and is less costly to determine. Moreover, there are a couple of things to note. Special skill tests are sometimes used to allocate entitlement in sports. Also, skill is not always rewarded since a show of skill leads to the entitlement going to the other party.