

## Notes on Entitlements

An *entitlement* is a set of rights: freedom to use resources in a certain way and the freedom to prevent others from using these resources. These rights can sometimes be passed on as easements or right of one party to use another party's property. This is associated with land. It is important to note that easements are recorded under a *registry*. If a registry for property does not exist (given the costs associated with having them), then the rights may fall under the privity of contract. This means that the agreement simply becomes "promises" that cannot be imposed on third parties.

Given entitlements, why is it that there is a proscription against theft? This is because theft is inefficient. The owner of the good/service/entitlement creates additional costs just to prevent any potential theft. In addition, the thief, himself, is also spending resources just to do the actual deed of stealing.

## Notes on the Protection of Entitlements

Entitlements are protected in various ways. The most common one in the private sector are the property rights. With this, all transfers of rights are voluntary and the owner can exclude others from enjoying the benefits of the entitlement. However, not all rights can be transferred. This is because these rights, such as the right to vote and marry, are inalienable by nature.

Liability rules also protect entitlements but they are not voluntary transfers. Instead, they are involuntary transfers but with compensation. This is used instead when the cost of voluntary transfers are very high. Examples include eminent domain and potential damages from driving accidents. Moreover, since the courts create additional costs (shifting negotiating costs to the courts system) as well as calculate an imperfect measure of the relative values of the properties, it is not always optimal to resort to courts.

Communal rights are the rights to use but not to exclude. This means that everyone who wishes to enjoy the property may do so. This is appropriate when transaction costs associated with the exchange of property rights are relatively high compared to any possible misallocation of rights because there is no right of exclusion. Furthermore, this can lead to hyper-congestion (excessive use with diminishing marginal benefit as well as some negative externalities).

Lastly, regulation of the inputs is used in high transaction cases, often based on the threat of harm rather than an actual harm. This is used instead of or in addition to liability rules since the injurer may be judgment proof (with a limited amount of wealth and the cost of damage exceeds the wealth of the injurer, the courts cannot make the injurer pay more than his wealth), implying less than optimal amount spent on care. As an example of regulating inputs, in highways, toll roads are placed to increase the cost of driving and try to reduce the congestion in

the highways. The drawback to this is that there is no compensation to the victim, there is infrequent harm that actually occurs, and there are many inputs (many of them ignored) into the production of the harm.