

Free exchange: One of the giants

The Economist

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“The Nature of the Firm”

- Born in 1910, and died in Sept 2nd, 2013
- Studied “commerce” at LSE. The degree included instruction in economics, and he quickly fell for the dismal science
- A one-year travelling scholarship gave him the chance to apply what he had learned.
- He chose to tour America’s industrial cities in the hope of answering a question that troubled him: Why did companies exist?

- Economists of the time were enthralled by the magic of price mechanism
- In a free market prices should adjust to allocate resources where they are most valued
- An example: price of wool

Price of wool

- A certain price for wool encourages farmers to raise sheep and bring wool to market to meet consumer demand
- As more is produced and demand is sated the price falls, discouraging farmers from wasting time and resources producing unwanted goods

- Yet whereas some parts of the economy rely on prices to guide materials and labour to their best uses, others do not.
- Within firms tasks are doled out by fiat and strategies are set by the Politburo of the corporate board
- 在市場運作下, 車廠應該是自外購入零件 (因為成本比自己製造要低), 組裝之後出售
- 但是, 有些車廠卻是自己製造零件, why?

Why firm exists?

- As he watched American car plants in action, he realised that the existence of the firm compensated for a critical flaw in the price-setting mechanism.
- In the real world it is often costly for buyer and seller to arrive at a final price.

- Transaction costs, like the need to negotiate or draw up contracts, prevent the price mechanism from working smoothly.

“The Nature of the Firm”

- Firms would exist when it was cheaper and easier to co-ordinate activity within a centrally planned organisation than to spell out contract details for every step in the production process
- Mr Coase first presented his proposition in a lecture in Dundee in 1932, at the tender age of 21
- In 1937 he published “The Nature of the Firm”, an article based on the Dundee lecture.

- In 1951 he migrated to America and proved similarly itinerant, until an article on radio-spectrum property rights caught the eye of scholars at the University of Chicago.
- In 1959 he was invited to Chicago to air his views. His audience included future Nobel prizewinners like George Stigler and Milton Friedman

The Problem of Social Cost

- Over the course of a two-hour discussion the measured Mr Coase won them around.
- He was asked to write up his arguments and in 1961 produced “The Problem of Social Cost”, another landmark text.
- By 1964 Mr Coase was on the University of Chicago’s faculty.

- 1980年代中期以前, IC 設計與製造合而為一, 例如, Intel, 此一經營模式稱為 IDM (Integrated Device Manufacturer)
- 但 IC 製造廠之設立成本非常高; 有一些 IC 設計公司, 本身無製造廠, 委託 IDM 廠製造
- 台積電於 1987 年設立, 開創晶圓代工模式, 從此, IC 設計與製造出現分工