УДК 336.76

THEORETICAL AND METHODOLOGICAL BASIS FOR DETERMINING TRANSACTION COSTS ON THE FINANCIAL MARKET

Кондрацкая Наталия Николаевна, к.э.н., доцент
Национальный университет водного хозяйства и природопользования, Украина
Nataliya Kondratskaya, PhD in Economics, National University of Water Management and Nature Resources Use, Ukraine, n.m.kondratska@nuwm.edu.ua

Аннотация. В статье проведен анализ основных составляющих трансакционных издержек в зависимости от их вида, этапа транзакционного процесса, а также типа трансакции. Это позволило предложить возможные пути минимизации трансакционных издержек на финансовом ринке.

Ключевые слова: трансакция, трансакционные издержки, финансовый рынок, институциональная теория, институциональные изменения.

Introduction. The development of financial market of different countries impact not only in finance, but also on the economy as a whole. After all, it serves as a tool to attract additional capital to the economy, positive effects on production. We must bear in mind, that different kinds and size of transaction costs in various financial markets means alot to investors. Thus the higher are transaction costs, the lower number of transactions happens and the less unattractive the market is. So, the analysis of transaction costs gives us not only an opportunity to identify problem segments, but also to justify directions of institutional system improvement. Therefore, improving the ways to minimize transaction costs and thereby increase the attractiveness of financial market becomes of greater importance.

Analysis of recent research and publications. To the transactional theory in general and to the transaction costs in particular, dedicated their works such scientists as K. Arrow, R. Coase, J. Commons, D. North, O. Williamson, A. Oleynik, R. Kapelyushnikov, A. Shastiko. The specific transaction costs on financial market studied S. Arhiyereyev, G. Demsetz, G. Kalach, Y. Zinchenko.

Despite the importance of scientific research of the above scientists, some theoretical and practical aspects remain undeveloped. We must say that most works are dedicated to the transaction and the transaction costs of the real economy. Instead, such as transactional segment of the financial market is insufficiently studied. Of great interest are questions of determining the structure of transaction costs, possibilities and ways to minimize them on financial markets of the developing countries. All these problems led to the choice of the theme of the research, defined its goals and objectives.

The purpose of the article. The purpose is to analyze the structure of the transaction costs on the financial market and study the ways to minimize them. To achieve this goal it is necessary to solve the following problems: analyse approaches of determining diferent kinds of the transaction costs on the financial market, identify their main components and possible ways to minimize them.

Presenting main material. It should be noted, that in economic theory there is no consensus as to how to determine the nature and syllable of transaction costs. Each scientist focuses on the components more interesting to his point of view. Thus, O. Williamson focuses on the costs of opportunistic behavior; J. Stigler – at the cost of finding information; M. Jensen and W. Meckling – the costs that arise within the relationship principal–agent; A. Alchian and G. Demsetz – the cost of coordination between the different resources in the production process; J. Barthel – at cost measurement [1, p. 231; 2, p.29–31].

Our analysis pointed that most often mentioned classification is the one proposed by R. Kapeliushnikov. He summarizes major classes of transaction costs that one can find in the literature and distinguishes [2, p.29–31]:

1. *Information retrieval costs*. Before you make a deal or contract, you need to have information about where you can find potential buyers and sellers of the relevant goods and factors of production, what are the current prices. Such costs are made of the time and resources costs, required to conduct a search, as well as losses associated with incompleteness and imperfection of the acquired information.

It should be noted, that the costs of searching for information are almost the same for all investors, since they consist mostly of the costs of getting information about trading and data about the company. However, the losses of using insider information are essential for most market participants, as this occurs inefficient and therefore not fair distribution of transaction benefits. The market itself is inefficient. Therefore, the development of institutional support that would restrict the use of insider information – is one of the question for the developing countries regulators.

2. Negotiating Costs. The market requires the diversion of significant funds to negotiate the terms of exchange, to settle and execut contracts. The main tool for saving this kind of costs is standardization of contracts.

Like most transactional costs, the transaction costs on financial markets exposed to the effects of "economies of scale". With increasing volumes of transactions, transaction costs per–unit would reduce. This effect is most clearly seen at the organized market, where there is a significant volume of transactions but the cost of transaction is low.

3. Measurement costs. Any product or service is a set of characteristics. In the act of exchange, only some of them are inevitably taken into account, and the accuracy of their evaluation (measurement) is approximate. Sometimes wanted qualities are generally immeasurable, and surrogates are used to evaluate them.

As you can see, this type of costs much depends on the possibility of quantitative assessment of the object of the agreement. Therefore, on Commodities exchanges, which established strict requirements of goods, this type of cost is low. Instead, it is extremely difficult to measure the quality of the securities. To minimize the cost of this type on stock exchanges there are strict requirements imposed by securities regulations, different listing levels and Rating.

4. The costs of specification and protection of property rights. This category includes costs for the maintenance of courts, arbitration, state bodies, the time and resources needed to restore the violated rights, as well as losses from poor specification and unreliable protection.

In such developing countries, as Belarus, Ukraine, Russia, the system of property rights is weak, which is why this type of costs is much higher than that in developed countries. Thus, to minimize these costs economic agents can withdraw their capital to countries with a more developed system of property rights.

5. Costs of opportunistic behavior. This is the most hidden and, from the point of view of economic theory, the most interesting element of transaction costs. The behavior deviating from the terms of the contract is considered opportunistic. This includes various instances of lies, deception, etc. The costs of this type arise from the asymmetry of information and are associated with difficulties in accurately assessing the post–contract conduct of another party to the transaction. Individuals, who are maximizing utility will always shy away from the terms of the contract (that is, to provide services of lesser or worse quality) until it does not threaten their economic security.

In organized markets protection against opportunistic behavior through depository and clearing structures that perform assets accounting, supply financial assets to the buyer, the cancellation of securities accounts of vendors and clearing of securities on the results of trading. On Over–The–Counter Market there is no guarantee of implementation of the agreement and the protection of opportunism, thus the transaction costs of participants significantly increase.

As you can see, this classification focuses on transaction costs in real sector or OTC market. On the exchange market, there are costs of information searching, broker and depository services. Instead, these institutions minimize such costs as costs of measurement, agreements implementation, specifications and property rights.

Quite detailed classification of transaction costs, in our opinion, was made by J. Wallis and D. North. They divided costs into three main types according to the transaction process stages [3, p. 612]:

1) ex ante – transaction costs arising prior to an exchange. They include the costs of obtaining information about prices and possible alternatives, product quality and reliability of the counterparty, etc.;

2) ex interim – transaction costs arising during the exchange. They consist of costs associated with waiting in queues, obtaining notarized documents, settlements etc.;

3) ex post – transaction costs arising after the exchange and include the costs of defense contracts, check of their performance, quality control, etc.

The strength sight of this classification is that it shows a distinct temporal aspect of transaction costs and the fact that they can not be used only interchangeably, but also complementary. Average transaction costs in the transaction time is the reason for choosing a particular form of institutional protection depending on the individual discounting rules [1, p. 231].

However, within the financial markets, transaction costs have their own specifics. Thus, to the costs arising before the transaction besides the pointed, should be included the cost of entering the market (agreements with brokers, exchanges, depository institutions, purchase appropriate software, etc.). Instead, costs incurred during the transaction on organized markets are close to zero, because the orders given through special terminals are performed almost instantly. The exception is spread – the difference between the best price bids for sale and purchase at the same time. Transaction costs that arise after the transaction are mainly costs for depository services and most of these costs are performed before the transaction.

As you can see, this classification accurately reflects the cost structure to the counter market in the case when an agreement is settled once. At the same time, the transaction costs on a regulated market are carried out mainly ex ante, and the remaining costs are negligible.

A somewhat different point of view on the transaction costs structure has John R. Commons. He provides three types of transactions: transaction bargaining, managerial transaction and rationing [4, p. 652].

Bargaining Transaction is free redistribution of ownership of rare good between equals legally economic agents. This type of transaction is the most common financial market. During the transaction an exchange of rights of ownership on financial assets takes place. However, as rightly pointed Kuzminov Y. I., Bendukydze K. A. and Yudkevych M. M. interdependence of participants of such transaction is caused by rare resources and potential for mutually beneficial exchange. Despite equal legal status, ratio of negotiating strength members can be arbitrary, and therefore the possible differences in the distribution of excess that arises in this case [5, p. 230].

It should be noted also that at the conclusion of the transaction on a regulated market transaction costs would be lower and especially their distribution more fairly. And vice versa – irregular transaction and stacked on the counter market provide larger transaction costs and disproportionate distribution of excess. Thus, regulatory institutions in the first place should promote exchange market segments.

But the assumption back of *managerial transactions*, by which the wealth itself is produced, is that of superior and inferior. Here the universal principle is efficiency, and the relation is between two parties, instead of the four parties of the bargaining transaction. The master, or manager, or supervisor, or other executive, gives orders — the servant or worker or other subordinate must obey. Yet a change in working rules, in the course of time, as modified by the new collective action of court decisions, may distinguish between reasonable and unreasonable commands, willing and unwilling obedience. In the managerial transaction individuals act voluntarily and not forced. In addition, those whose free will is limited according to the contract will get some compensation.

As you can see, managerial transaction is interpreted rather narrowly and considered in the context of labor relations [5, c 231]. Nevertheless, we believe that these transactions inherent the segment of financial management as well. First of all, here we include underwriting and brokerage services. In addition, managerial transaction are typical for asset management used by private pension funds and collective investment institutions. And although while economic agents act not as individuals but firms – the result of these transactions is capital growth. Their task – is increasing of performance by redistributing responsibilities among economic agents.

Finally, the *rationing transactions* differ from managerial transactions in that the superior is a collective superior while the inferiors are individuals. Familiar instances are the log–rolling activities of legislature in matters of taxation and tariff; the decrees of communist or fascist dictatorships; the budget–making of a corporate board of directors; even the decisions of a court or arbitrator; all of which consist in rationing either wealth or purchasing power to subordinates without bargaining, although the negotiations are sometimes mistaken for bargaining, and without managing, which is left to executives. They involve negotiation, indeed, but in the form of argument, pleading, or eloquence, because they come under the rule of command and obedience instead of the rule of equality and liberty. On the borderline are partnership agreements, which ration to the partners the benefits and burdens of a joint enterprise. These rationing transactions, likewise, in the American system, are subject finally to the working rules (due process of law) of the Supreme Court.

Transaction rationing describes the relationships that are based not on the rights of equality and freedom, and the rights of coercion and subjugation. This transaction distributes the costs and benefits of wealth creation via the dictates of agents that have a higher legal status. Transactions reflect mainly power rationing decisions that determine the distribution of costs and benefits of creating social wealth.

On financial market, this type of transactions arises not only between state regulators and market participants, but also between Self–Regulatory Organizations and participants in these organizations. While a SRO has the power to create and enforce members' regulations and standards, it can increase transaction costs of participants, which they cannot escape.

Conclusions and suggestions. As it is shown in the article, the cost structure on the financial market is slightly different from the classical structure of transaction costs of the real economy. The biggest differences are inherent to the organized market. On exchanges, there are significant ex–ante costs (costs of entering the market) while costs that arise during and after the transaction (including the cost specification property rights and protection against opportunistic behavior) are extremely negligible.

Thus, a particular analysis of the transaction costs on the financial market has allowed to identify the main ways to minimize them. These include: increase market transparency and limit the use of insider information, to promote the organized market, improving the existing system specification and protection of property rights. Thus, minimizing the transaction costs on the financial market will not only raise capital, but also have a positive impact on the economy as a whole.

References / Список использованных источников

1. Шаститко А.Е. Новая институциональная экономическая теория. / А.Е. Шаститко [3–е изд., перераб. и доп.]. – М. : Экономический факультет МГУ, ТЕИС, 2002. – 591 с.

2. Капелюшников Р.И. Экономическая теория прав собственности: методология, основные понятия, круг проблем / Капелюшников Р.И., М.: ИЭ АН СССР, 1990. – 90 с.,

3. North D. Integrating Institutional Change and Technical Change in Economic History: A Transaction Cost Approach / D. North, J. Wallis // Journal of Institutional and Theoretical Economics, Vol. 150 (1994). – p. 609–624.

4. Commons J. Institutional Economics / J. Commons // American Economic Review. 1931. Vol. 21. N 4. – P. 652.

5. Кузьминов Я. И. Курс институциональной экономики: институты, сети, трансакционные издержки, контракты [Текст] : учебник для студентов вузов / Я.И. Кузьминов, К.А. Бендукидзе, М.М. Юдкевич. – М. : Изд. дом ГУ ВШЭ, 2006. – XL – 442 с.