DISCUSSION PAPERS IN ECONOMICS

Working Paper No. 06-04

Demand for Contract Enforcement and Gains from Trade

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fi fi

fi

fi

$$= \quad + \quad \frac{1}{2}$$

$$+ (1 - \quad) \frac{1}{2}$$

( ) =

ﬂ

quality of institutions

( )

( )

g

trade rob g

( ) = + (1 −) g

rob

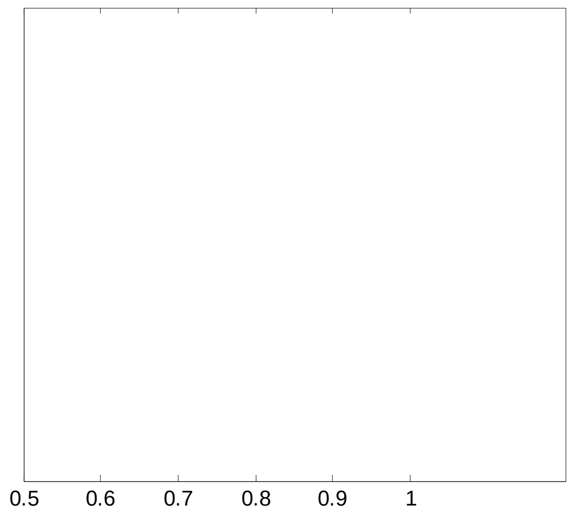
g ≡ (1 −

) (

$$(\quad) = \quad {}^{g} + (1 - \quad) \left[\frac{1}{2} \quad {}^{g} + \frac{1}{2} \quad {}^{g} \right.$$

$${}^{g} = \max \{ \; (\quad) \quad (\quad) \}$$

= (   )

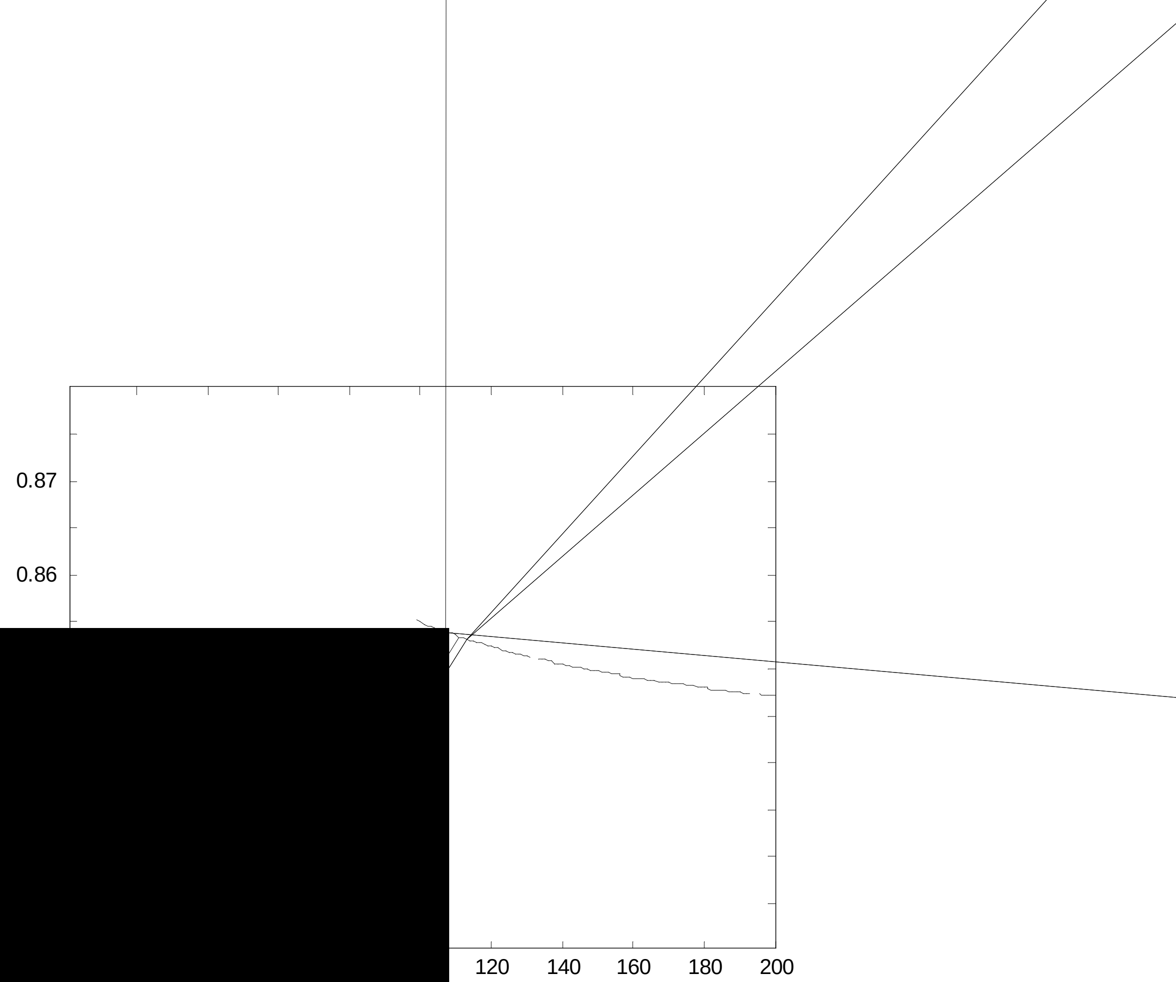

0.5
0.6
0.7
0.8
0.9
1

* (   )

ﬁ

Suppose punishment is proportional: ( ) = . If an equilibrium with contracting exists, then * ( ) is increasing in the gains from trade .

( ) =



[redacted]

property rights

coerced

3

fi

[0 * ( )]

fi

Assume that 1 2 0 _ so that $_H$ is well defined. Assume ^{D} ( ) so that the demand for enforcement is positive. Then * is concave in and in

$_H$ = 1 * _

fi contracting
institutions

$$
{}_{t}^{g}(\;;\;) = \frac{}{1 - \;(1 - \;)}
$$

$$
{}_{r}^{g}(\;;\;) = \frac{(\;+1)(\;(1-\;)-\;)}{(1-\;)(1-\;)+2(1-\;)}
$$

(3)

$$
{}^{g} = \begin{cases} {}_{t}^{g}(1;\;) & = 1 \\ {}_{r}^{g}(0;\;) & = 0 \\ {}_{t}^{g}(\;;\;) = {}_{r}^{g}(\;;\;) & \end{cases}
$$

$$
(\;;\;) = (\;)[\,{}_{t}^{g}(\;;\;) - {}_{r}^{g}(\;;\;)]\,;
$$

$$
(\;) \equiv (\;(1-\;)(1-\;)+2(1-\;))(1-\;(1-\;)\;)
$$

0 (;)

$^{g}(\;;\;) - {}^{g}(\;;\;)$ ﬁ

$$
(\;;\;) = {}^{2}{}_{F}(\;) + {}_{F}(\;) + {}_{F}
$$

Since $_H$ 0 $_H$ 0, the upper root of is positive, $\bar{=}$( ) 0 i $_H$ 0 which is true whenever $_L$ where $_L$ is the lower root of the quadratic polynomial

$$( ) = + 1 + ⁱ6 - 4 ^2 - 6^¢ + ^2 ⁱ5 - 8 ^2 + 4 ^3 + 1^¢ ;$$

It is easy to check that $_L \in (0\ 1)$ provided 1 as (1) 0 and (0) 0

Assume that 1 2 and $\bar{=}$( ) _( ) Then there are three equilibria: = 0 and a couple $_L$ $_H$ 1

■

(;)

$$_L( ) \equiv \frac{- _F( ) + p\overline{\quad ( )}}{2 _F}$$

( ) 0

$$- \equiv \frac{1 -}{2 - \quad -}$$

ﬁ)

$-$ 1 $-$ ( )

$^{*}_{G}$ ( ) 0

(4) 1

$-$ ^{D} ( )

H $-\sqrt{\quad F}$

$F = {}^{2}_{F} - 4\ F\ F$ H

$$\frac{\quad H(\quad)}{} = \frac{G(\ H\quad)}{\sqrt{\quad F}} \quad 0$$

$$\frac{\quad H(\quad)}{} = \frac{c(\ H\quad)}{\sqrt{\quad F}} \quad 0$$

■

> ! '%! 'T s '%! 'T s

$_F($ $) = {}^2$ $_F($ $)$

0 0

2 $_F($ $) = \frac{F}{\quad}($ $) +$

fi
$(\ )$ $\quad {}_{=}(\ ) = {}_{H}(\quad) \qquad {}_{H}(\quad)$

$$(\qquad) \equiv \frac{{}_{F}(\qquad)}{2} \equiv$$

$$(\qquad) = {}^{2} {}_{H} + \frac{H}{} + \frac{H}{2}$$

$${}_{H} = {}^{2}(\ + 1) \, i \, 2(1 - \ )^{2} - (\ - 2 \quad + 1)^{2}$$

$$- \qquad {}_G i \; ¢ \qquad H \qquad - \; :$$

$$ {}_G i \; \_; \qquad ¢ = 2\,(1 - \quad)\,\frac{(\quad)}{(\quad + \quad - 2)^2}$$

$\frac{d}{d\delta}$ ( ) (46)

$\frac{(\ _H\ \ )}{\ } \frac{_H(\ \ )}{\ }$ 0

$_y(\ _H\ \ )$ 0 (44)

( )

$\frac{\partial}{\partial\delta}$ (^{H})

$$\sum_{t=0}^{\infty} {}^{t}({}_{t} - {}_{t}) \; {}_{0} {}^{t} = \sum_{t=0}^{\infty} (\;)^{t} ({}_{t} - {}_{t}) \; {}_{0}$$

0

1 fi ■

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