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Why Ronald Coase matters [1]

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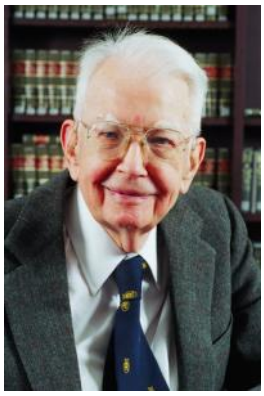

The great economist Ronald Coase has died at the age of 103. Vuk Vukovic explains what made Coase such an influential and profound thinker.

Yesterday, at the age of 103, one of the greatest minds of our time, Nobel prize winner and emeritus professor at University of Chicago Law School Ronald Coase passed away.

His contributions to and influence on economic science are of monumental importance. His groundbreaking research has set the stage for a joint field of law and economics, and has also influenced the new institutional revolution in addition to a number of other fields and areas of research in economic theory.

It would be unfair to say he only made two major contributions since both of these (written 23 years apart from one another) not only won him the Nobel prize, but have continued to influence the economic science ever since. The first was his 1937 paper *The Nature of the Firm* [3] where he introduced the concept of transaction costs in microeconomic analysis. He believed that firms exist because they economize on transaction costs - costs like market entry, acquiring information, managing a company, bargaining, etc. If these individual transactions can be reduced into fewer transactions by organizing a hierarchical body, then entrepreneurs will form firms.

With microeconomic theory at the time focusing only on production and transportation costs, Coase's inclusion of transaction costs was a breath of fresh air into economics. However, in 2009 Coase said he was surprised how much *The Nature of the Firm* was being cited since it was "little more than an undergraduate essay". **Continue reading...** [4]

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