



INSTITUTIONAL FACTORS DETERMINING OF THE TRANSACTION COSTS IN THE LAND CONTRACTS

M. Georgiev*

Department of Economics, Agricultural University - Plovdiv, Plovdiv, Bulgaria

ABSTRACT

The main objective of the study is to show the institutional factors in land contracts. The factors are classified into five groups. The information is collected from both primary and secondary sources, based of fifty deals, made in Plovdiv region. For the purposes of the analysis, the process is described legally, but later was modeled statistically using a multiple linear regression. The study draws following conclusions. The land market contracts in the country, determine statistically significant relationship between education rules serving agricultural contracts, transactions for movement, failure and document, the time contract on the hand and transaction cost on other.

Key words: lend contract, transaction costs, institutional factors

INTRODUCTION

The modern economic science continues to seek the causes of public relations. Over the past twenty years, scholars from Bulgaria, extensive analysis land market in the country. They made review of the factors, which show influence on this market, but mainly in the neoclassical context. In the analysis, on the scientific reports, the land market is undergoing a transformation, because of the existence and continuous change in the law. In this means the situation reflects the relationship between market, exchange regulations and the establishment of these economic effects. That is expression of the condition between quantitative parameters of the regulations, contracts and their result - transaction costs.

The aim of this study is the disclosure of institutional factors, affecting the agricultural land market in Bulgaria. This is possible through establishment of:

- (a) institutional logical relation and
- (b) statistical correlation

between: the rules, their changes, property rights and proceses on the one hand and the amount of transaction costs on the other.

*Correspondence to: *Minko Georgiev, Agricultural University - Plovdiv, Department of Economics, e-mail: mm72gg@gbg.bg*

MATERIALS AND METODS

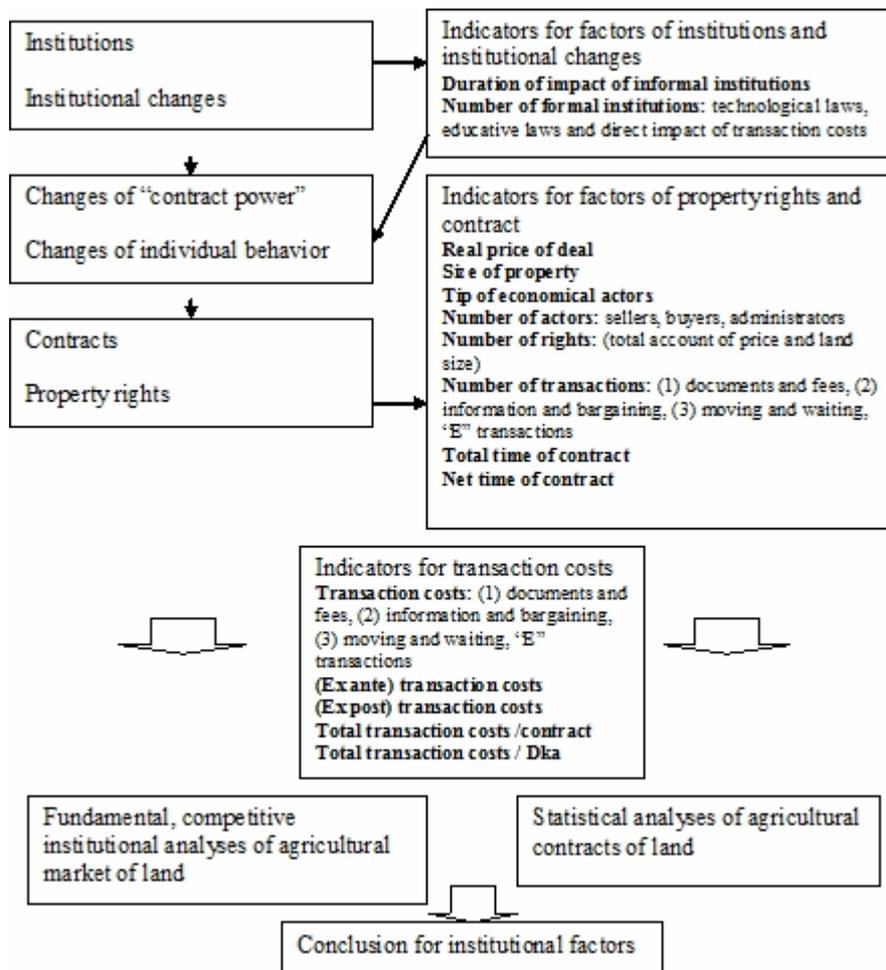
The main approach in this study is the use of tools for comparative institutional analysis and metods based on the statistics. By describing the logical connection and comparison between the parameters of institutional environment and institutional change, this study clarifies the reason for the current state of market and dynamics of agricultural property. Through regression analysis on the factors becomes clear, how the process identifies the distribution of property rights.

The analysis of the institutional change is a review of secondary sources, presenting information on current legislation and its changes over the period 1990-2010.

To clarify the changes in the contracts and to find the specific values of primary information for individual behavior, a questionnaire was drawn up and interviews with 74 participants conducted. The data were collected from 43 contracts, representing the sale of agricultural land in the period 2003-2010.

For measuring the transaction costs in this sudy, is adapted the methodology of [1].

Place of study is the Plovdiv region. The territory of this region was chosen, because there is sufficient number of organizational units and all types of administrative structures.



Source: Own research

Fig. 1. Analytical framework

INSTITUTIONAL FACTORS AND TRANSACTION COSTS

Theoretical approaches to conducting an institutional analysis of factors, associated with the agricultural land market. The institutional theories define institutions as a factor, which together with market regulations, impact on the economic processes. On the other hand because of the ability of the contract, to carry economic effects, the contract is also considered as rules guiding economic processes and their effects. Institutions and contracts have the abilities to create opportunity for operators to utilize their goals and also create or exchange goods. That is done by using property rights. The institutions, the markets (considered as a rule of conduct, which has the ability for self-regulation), the contracts and the property rights are determinants of social effects, which can be measured economically with transaction costs.

Factors associated with institutions and institutional change. At the heart of the modern institutional theory, there are a two theoretical models of institutional change. First, [2] determined continuing transformation of rules, technology and education, which are the basis for what is happening in society. The second was described by american scientists [3]. In its essence associated behavior level of contract with the possibility of a competitive institutional alternatives. If a community accepts the possibility for developing on the economy whit institutions that govern both the same social problems, the actors should choose those, which make the process less expensive. The change in technology is important in the both theories, because it allows cheaper routine activities, to disseminate information efficiently and benefit from economies of scale in the contract itself or the market level. Desired economic result would be obtained by

integration between the "E" effect of technology, education that increases knowledge about the processes and education, which requires an increase the market, with the same technology. In this situation, factors affecting the transaction costs of the agricultural land market in the country are bound to change the laws relating to iteration of organizational, technological and educational changes. They have created competing alternatives in terms of different ways to cheaper covering the legal and economic processes of market participants. This concept allows the research to derive indicators from 1 to 5 shown in **Table 1**.

The theories of contract are regarded as sub theories of the modern neoinstitutional approach. On one hand, they define a contract as organizational framework associated with implements of the exchange of rights, the transfer of power of contract within the economic processes [2, 4]. On the other hand the contracts are basis for vertical integration between public policies, markets, companies, individuals, hybrids, transactions [5] and transaction costs [6]. Treaties are the link between fundamental rules - market institutions and individual rights - property rights.

Factors associated with holders of property rights in contracts. The theories of property rights determined individual abilities that *participants* have in the contractual framework [4]. In this situation the study should seek the conditions governing, the rights of holders in the contracts. Neoclassical theory, relating total number of market actors and market demand and supply of market. In contrast, the neoinstitutional approach, points that actors in the contract are in conflict in the wealth distribution [7, 8, 9]. The types of actors are indirectly related to the number of participants in a market and distribution of benefits from a right. This concept allows the research to derive indicators from 6 to 10, shown in **Table 1**.

Factors associated with the exchange and allocation of property rights. Exchange of goods is seen in the classical market theory as a direct consequence of physical function of ownership. Modern theories of property rights, focus on the behavioral component of

its exchanges by analyzing the concept of "package of property rights" [10]. This addition to the physical characteristics of property rights was defined from the nature of all case study. This concept allows to derive an indicator variable with the number 11, shown in **Table 1**.

Factors associated with economic processes in the contracts. The institutional theory regards the market as a sum of mikro frames of contracts and the contracts as a framework, which defines process where something happens. In this position, important are the specific actions within this framework, taken as a reaction to the subjective interpretation of conditions of the environment. These actions are transactions [6]. On the other hand, contrary to the neoclassical theory, the time of contract is a matters. It defines a contract as a continuous process dependent on a series of institutional arrangements and transactions, which also have a period of flow. For the process important is the force of procedures, the time limits for carrying out an activity, and period of the flow of transactions [11]. This concept allows the research to derive indicators from 12 to 18 as shown in **Table 1**.

Evaluation of impact factors by transaction costs. Transaction costs are a tool for economic evaluation of the entire environment made up of institutions, markets, contracts, property rights, transactions, or the whole mix of public economic relations. Therefore, transaction costs can be classified in two ways:

1. Positive socio economic impact of market rules and exchange organizations related to the protection of public relations. To this end effect is discussed in the works of [2].
2. Problems associated with the ineffectiveness of the impact of those rules, market, contractual rights and transactions. This manifestation of the institutional environment described by theories of opportunism in [6, 12] theories of rent-seeking [9] the bureaucracy [13] and the theory of non-market regulations at the entrance of the processes [14,15].

At the same time we can not ignore the fact, that transaction costs can be considered as a prerequisite for what happens in a later (ex post) stage of the process [16, 2]. This study examines the transaction costs only for effect - failure of the rules and processes. This concept allows the research to derive indicators from 19 to 25 as shown in **Table 1**.

THEORETICAL AND EMPIRICAL MODELS OF INSTITUTIONAL FACTORS WITH TRANSACTION COSTS

Theoretical modeling. Theoretical models for analyzing the institutional environment of the principle of institutional factors - transaction costs for some of the works of [17] the characteristics of short-term contract, [18] the relationship of principal –

agent, [22] contractual choice as well as models [19, 20, 23, 24,16].

Empirical modeling. Empirical models are developed for functional relationship between institutional factors and transaction costs, evident in studies [25,26,27,28,24]. Building on the last two models, in this study is offered the following variables for analysis of factors, conditioning the market for agricultural land:

Table 1. Factors and variables

Factors	Variable quantity
1. Institutions	(1) Time for impact of informal institutions
	(2) Year for creating on formal institutions
	(3) Number of formal institutions
	(4) Number of changes of formal institutions
	(5) Year of the beginning of contract
2. Property rights	(6) Number of actors on the market
	(7) Number of actors (total in contract)
	(8) Number of administrators
	(9) Number of buyers
	(10) Number of sellers
	(11) Number of rights (prices and land sizes - total)
3. Contracts	(12) Number of transactions for documents and fees
	(13) Number of transactions for information and bargaining
	(14) Number of transactions for moving and waiting
	(15) Number of "E" transactions
	(16) Number of transactions (total)
	(17) Real time of contract
	(18) Total time of contract
Evaluation of factors	
4. Transaction costs	(19) Transaction costs (ex ante)
	(20) Transaction costs (ex post)
	(21) Transaction costs for documents and fees
	(22) Transaction costs for information and bargaining
	(23) Transaction costs for moving and failure
(24) Transaction costs / contract	
(25) Transaction costs / Dka	

Source: Own research

CONCLUSION

Comparative institutional analysis. Comparative institutional analysis is conducted to examine the factors that affect

the land market, leads to the following conclusions:

In terms of institutions and their change related to the agricultural land market. The land market in Bulgaria, continues its

development under the impact of informal institutions from 60 years ago, causing the market to be based on non-market social relations. Over 700 formal changes in the last 20 years and more than 73 pieces of legislation that speak for the institutional overregulation of the market. There is lack of focus on institutional and technological change and appropriate for this aim education. The latter means that the institutions and their changes are factors that create difficulties in adaptation of actors to the agricultural land market in Bulgaria.

Regarding the effect of property rights and agricultural lands. Rights are distributed command-administrative, without market-tools. The continuously increasing the number of types of actors, provokes more interest on the assignment of property rights and therefore more conflicts. The increased number of conflicts leads to reduced market volumes and low scale of the contracts.

With regard to agricultural land contracts as an economic process. The "time proces" which imposed with procedures is limiting the market. This guarantees increasing of the number of transactions and the use of more documents. The absence of "E" transactions can not reduce the effect of "natural act" into the processes. The number of transactions and their period increase the total period of contract. This means difficulty with coordination of the contracts and is a reason for missed f benefits by the actors of the agricultural land market.

In this way the factors can explain institutional set that continuously increase the amount of transaction costs, and how the transaction costs are an indicator of reduced income of actors, a typical problem in the Bulgarian land market.

Regression analysis. The analysis of statistical information through modeling processes shows that the land market contracts in the country, determine statistically significant relationship between education rules serving agricultural contracts, transactions for movement, failure and document, the time contract on one hand and transaction cost on other.

Comparative-institutional analysis and statistical analysis suggest differences in respect of the importance of the used indicators. According to the comparative-

institutional analysis, more important are indicators related to institutions, property rights and their changes. According to the statistical (regression) analysis, more important for the market are economic characteristics of the process, following the economic nature of the contracts.

The main conclusion is that comparative institutional analysis is more appropriate for a review of factors, affecting the market of agricultural land at the macro level. Differently, statistical analysis is more appropriate for specific micro framework on the market exchange - contracts.

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