Economic Interactions on The Consequences of Transaction Costs

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Abstract. Transaction costs arise because of contracts between one party and another, between one institution and another, between individuals and institutions and so on. The purpose of this study aims to determine the concept of costs in economic transactions in modern economic transactions. By using a research method, namely library research. The results of this study are current conditions showing that the concept of economic transaction costs is something real and is practiced in economic activities. The fact proves that economic transaction costs are an inseparable part of economic activity, besides that economic transaction costs cannot be avoided in economic activity. Anyone who carries out economic activities must be faced with economic transaction costs.

Keywords: transaction costs, cost concept, and economic transaction costs

JEL Codes : H60,H61,h83

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1. Introduction

Economic development has caused various kinds of changes, especially in the structure of the economy. Changes in economic structure are one of the characteristics that occur in economic growth in almost every developed country(Idris, 2013). Based on historical records, this sectoral growth rate includes a gradual shift in agricultural activities towards non- agricultural activities and recently from the industrial sector to the service.

The rate of of economic growth of a region is shown by using the rate of increase in GRDP (Gross Regional Domestic Product), so that the high per capita GRDP development that can be achieved by the community is often a measure of the success of a natural area in achieving its goals to achieve economic development (M. Kuncoro, 2010). An institution that thrives on minimizing transaction costs to improve economic performance. These transaction costs include costs for information, negotiation, monitoring, coordination, and contract. Ownership is not an important part of the overall efficiency concept, as ownership can be voluntarily adjusted and changed to facilitate improvements in the production process when transaction costs are at a minimum.(Aris Wahyu Kuncoro & Rahardjo, 2013). In the context of technological and institutional change, transaction costs are land, labor, capital, and are required to transfer property rights of one (Haryono et al., 2009). Therefore, transaction costs mean the costs of land, labor, capital, and entrepreneurial skills required to physically convert them into products. The cost of seeking information is the key to transaction costs, which consist of the cost of measuring the goods exchanged and the cost of protecting property rights and executing the agreement.(Sultan & Rachmina, 2017). Transaction costs (transaction costs) is a concept that describes the costs that come out when making transactions outside of production costs. The market shows that in exchange it does not only take into account how much it costs to produce an item but also has to calculate how much it costs to carry out a transaction/exchange including the costs that must be incurred to obtain a business license.(L. Arsyad, 2014)Transaction fees will result in the total cost increasing. The smaller the transaction fees that can be reduced, the smaller the total costs. This will affect investment and ease of business so that there is a link between high transaction costs and investment. Transaction costs mark the emergence of the New Institutional Economie (NIE) school which states that if transactions are forgotten then the activities of economic organizations will be irrelevant because the advantages of an organizational form will be easily eliminated by no-cost contracts. Transaction costs arise because of contracts between one party and another, between one institution and another, between individuals and institutions and so on(Ahmad Erani Yustika, 2007).(Zulkarnain & Mangering, 2018)The transaction cost analysis paradigm starts from the fundamentals of the company's existence, namely the costs used in setting the price system to coordinate economic activities. This is an understanding that is mostly related to the model of transaction costs. Coasc(Nur Syamsiyah, 2021)also recognizes that markets and organizations are alternatives in exchange for economic organization.(Richter, 2000) Uncertainty and opportunistic behavior (oppommism) can also increase the costs used in the pricing system. An economy based on the price mechanism (in this case the price will act as a coordinator) will in turn encourage goods or services to be very profitable for the consumers concerned.

1. Research methods

The method used in this study uses a library research method or approach. Literature study or literature can be interpreted as a series of activities related to the methods of collecting library data, reading and taking notes and processing research materials.(Zed, 2008). In literature research, there are at least four main characteristics that the author needs to pay attention to, including: First, that the author or researcher is dealing directly with text (nash) or numerical data, not with direct knowledge from the field. Second, the library data is "ready to use" meaning that the researcher does not go directly to the field because the researcher is dealing directly with the data sources in the library. Third, that library data are generally secondary sources, in the sense that researchers obtain materials or data from second-hand sources and not original data from first-hand data in the field. Fourth, that the condition of the library data is not limited by space and time). Based on the foregoing, the data collection in the study was carried out by reviewing and/or exploring several journals, books, and documents (both printed and electronic) as well as other sources of data and or information deemed relevant to the research or study. This study aims to find out about the concept of costs in economic transactions and the concept of costs in modern economic transactions(Sugiyono, 2012).

1. Results and Discussion
   1. **Cost Concept**

(Mulyadi, 2015)The concept of cost is the most important concept in management accounting and cost accounting. The purpose of obtaining cost information is used for the planning, controlling, and decision-making processes. Costs are sacrifices of economic resources, measured in units of money, which have occurred or are likely to occur for certain purposes, so that costs in a broad sense are defined as sacrifices of economic resources to acquire assets. Cost is the sacrifice of economic resources measured in units that have occurred or are likely to occur for a particular purpose.(DUNIA & Abdullah, 2012) In determining production costs, it is influenced by the approach used to determine the elements of production costs that are taken into account in production costs: the full costing method and the variable costing method. In the full costing method, the production costs that are taken into account in determining production costs are the cost of raw materials, direct labor costs, and factory overhead costs, both fixed and variable behavior.(Dwiputri, 2013) In the variable costing method, the production costs that are taken into account in determining the cost of production only consist of variable production costs, namely the cost of raw materials, direct labor costs, and factory overhead costs. Manufacturing activity is the process of transforming materials into goods using labor and factory facilities. The costs incurred in connection with these manufacturing activities are called production costs. These costs are classified into three elements, namely direct material costs, direct labor costs, and factory overhead costs.(Mulyadi, 2015)Cost classification can be classified into five groups, namely as follows:

1. Output object

In this classification method, the name of the expense object is the basis for classifying costs. For example, the name of the object of expenditure is fuel, then all expenditures related to that fuel are “fuel costs”. Examples of cost classification on the basis of expenditure objects in a paper company are as follows: straw costs, salaries and wages costs, soda costs, machine depreciation costs and others.

2. Main functions in the company

In a manufacturing company, there are three main functions, namely the production function, marketing function, and general and administrative functions. Therefore in a manufacturing company, costs can be grouped into three groups:

a) Production costs are costs incurred to process raw materials into finished products that are ready to be sold. According to the object of expenditure, production costs are broadly divided into: raw material costs, direct labour costs, and factory overhead costs.

b) Marketing costs are costs incurred to carry out product marketing activities. Examples of these costs are advertising costs; promotion costs, transportation costs from the company's warehouse to the buyer's warehouse; salaries of employees of the divisions that carry out marketing activities; sample fee.

c) Administrative and general costs are costs for coordinating production and product marketing activities. Examples of these costs are the cost of employee salaries in finance, personnel accounting and public relations, accountant examination fees, photocopy costs.

3. The relationship of costs to something that is financed

Something that is financed can be a product or a department. In relation to something being financed, costs can be grouped into two groups, namely:

a) Direct costs are costs incurred, the only cause of which is because something is being financed. In relation to products, direct costs consist of raw material costs and direct labour costs.

b) Indirect costs are costs that occur not only because of something that is being financed. Indirect costs in relation to products are referred to as indirect production costs or factory overhead costs.

4. Cost behavior in relation to changes in the volume of activity, costs are divided into 4, namely:

a) Variable costs are costs whose total amount changes in proportion to changes in the volume of activity. Examples of variable costs are the cost of raw materials, direct labor costs.

b) Semi-variable costs are costs that change not in proportion to changes in the volume of activity. Semi-variable costs contain elements of fixed costs and variable costs. Example: the cost of electricity used.

c) Semifixed costs are costs that are fixed for a certain level of activity volume and change with a constant amount at a certain production volume.

d) Fixed costs are costs that remain in total within a certain volume of activity. An example of a fixed cost is the salary of a production director.

The period of benefit, costs are divided into 2 parts, namely:

a) Capital expenditures are costs that have the benefit of more than one accounting period (usually the accounting period is one calendar year). An example of capital expenditure is expenditure for the purchase of fixed assets.

b) Revenue expenditures are costs that only have benefits in the accounting period for which these expenditures are made. Examples of income expenditures include advertising costs, telex costs, and labor costs.

* 1. **Economic Transaction Cost Concept**

North(Ahmad Erani Yustika, 2007)argues that transaction costs in developing countries are generally low. The low transaction costs can occur because of the close relationship within the community. These social structures such as respect for elders or parents provide mechanisms for the enforcement of agreements and resolution of conflicts among community members. However, in order for economic activity to continue, the community must transact more broadly. The more complex and impersonal the trading network will lead to higher transaction costs as well.

According to Williamson(Ahmad Erani Yustika, 2007) defines transaction costs as costs to run the economic system in addition, costs to adapt to environmental changes. Transaction costs are defined as the costs of specifying and enforcing the contract upon which the exchange is based, and thus include the costs of political and economic organization. Thus, covering the costs of negotiating, measuring and imposing exchanges. As fortypes of transaction fees according to Korchner and Picot(Sirajuddin et al., 2011; Sultan & Rachmina, 2017) that is :

1. Information search costs: costs incurred to obtain information about the desired goods from the market.
2. Negotiation costs and contract decisions (bargaining costs): costs required to receive an agreement/contract with another party for a transaction.
3. Supervision/monitoring costs: costs incurred due to activities to supervise other parties in carrying out the contract.
4. Adaptation costs (during the implementation of the agreement): costs incurred due to adjustments made when a transaction agreement is made.

(DUNIA & Abdullah, 2012; Mulyadi, 2015)The transaction cost economics literature identifies three costs that are very important in the exchange process:

1. The costs that arise from all differences that occur later after the contract relationship is terminated, and the costs of planning to resolve how the differences issue should be resolved
2. Negotiation costs with other parties regarding the plans made.
3. The cost of making a plan which in its implementation can be enforced by a third party such as a judge's court, in the event of a dispute.

(Firdaus Ahmad Dunia, Wasilah Abdullah, 2019)From another point of view, these transaction costs can also be separated into pre-contract (ex-ante) and post-contract (ex-post) transaction costs. Ex-ante transaction costs are the costs of drafting, negotiating, and securing the deal. Meanwhile, ex-post transaction fees include:

1. Costs of adaptation failure when a transaction deviates from an agreed-upon required.
2. Negotiation/bargaining costs incurred if bilateral efforts are made to correct a dispute
3. Costs for designing and carrying out activities related to the governance structure
4. governance in the event of a dispute
5. The cost of binding so that the commitments that have been made can be guaranteed

In North's opinion(Mulyadi, 2015; Zulkarnain & Mangering, 2018), rural communities in developing countries usually have lower transaction costs. This may be due to the close relationship within the community, so that information about the activities in it can be spread widely and freely. The amount of transaction costs can occur due to deviations in the form of:

1. Deviations over the weak guarantee of ownership rights,

2. Deviation measurement over complex tasks and diverse principles,

3. Intertemporal deviation, and

4. Deviations arising from weaknesses in institutional policies

* 1. **The Concept of Transaction Fees in the Contemporary Era**

Actually to define this transaction fee is very complicated. However, as an attempt to investigate the concept of transaction costs it is useful to recognize the form and structure of an exchange/transaction. According to Williamson(Ahmad Erani Yustika, 2007; Sulistiani, 2014; Sultan & Rachmina, 2017), transactions occur when goods and services are transferred through separate technologies. One stage of activity stops and another begins. According to Williamson(Ahmad Erani Yustika, 2007; Zulfiandri et al., 2017)defines transaction costs as the costs of running an economic system, in addition, the costs of adapting to environmental changes.(Zulfiandri et al., 2017)Transaction costs are defined as the costs of specifying and enforcing the contract upon which the exchange is based, and thus include the costs of political and economic organization. Thus, it covers the costs of negotiating, measuring and imposing exchanges.(L. Arsyad, 2014; Lincolin Arsyad, 2012) In more detail, the negotiation process itself can be very long and costly. All exchange actors must bargain with one another. Unions and company management, for example, must periodically carry out new negotiation processes.(Sultan & Rachmina, 2017)Then the measurement can also be very expensive, because it involves the desire to know in depth the goods and services to be traded. A car buyer, for example, doesn't just want to know about the price, but also other information about the condition of the engine, fuel economy, car comfort, interior completeness, and so on.(Carter, 2009) This lack of information results in additional transaction costs. Lastly, exchange enforcement also incurs transaction fees. If in one exchange process the entire agreement can be done well, then the subsequent transaction costs can be reduced. But if the opposite happens, a coercive mechanism is needed to ensure that the exchange process can take place, which of course creates transaction costs.

According to Williamson(Ahmad Erani Yustika, 2007; Nadia Ika Purnama, 2017), the determinants of transaction costs are frequency, specificity, uncertainty, limited rationality, and opportunistic behavior. Williamson(Ahmad Erani Yustika, 2007) views differently to the two views of structural development, namely the market and the organization. In the market, exchange occurs through contract negotiations in which all parts are assumed to move for personal gain.(Chalid, 2012; Sirajuddin et al., 2011) In the pure knowledge view, exchange/transaction is a necessity for all parties, and prices are based on individual interests and the invisible hand in a free economy (mostly buyers and sellers) so that cost control is required by a pure market.

(Mulyadi, 2015) The economic theory of transaction costs is an economic theory that analyzes a number of reasons for the existence of companies and their limitations in the context where markets and organizations are considered as an alternative to the mechanism of exchange rules. Therefore, efforts to understand the concept of transaction costs cannot be separated from understanding the activities that include transaction processes and contracts. For, as pointed out by those referring to the opinion of Commons and Coase(L. Arsyad, 2014; Lincolin Arsyad, 2012) The unit of analysis of the concept of economic transaction costs lies in the transaction itself as a continuation of the commercial relationship and the existence of the company, namely the ongoing contractual relationship is an alternative to market transactions and through some relationships people can avoid transaction costs.(Gasim, 2017) But this relationship is not independent by itself. This is because to develop and maintain relationships/relationships leading to sustainable commercial interactions, it is necessary to use resources whose expenditures are calculated as opportunity costs.(Haryono et al., 2009; Listiyanto & Manzilati, 2007)Associated with the paradigm shift in economic transaction costs, if it is associated with current conditions, it shows that the concept of economic transaction costs is something that is real and is practiced in economic activities. The fact proves that economic transaction costs are an inseparable part of economic activity, besides that economic transaction costs cannot be avoided in economic activity.(Ahmad Erani Yustika, 2007) Anyone who carries out economic activities must be faced with economic transaction costs.

1. Conclusion

In the classical economic paradigm, the concept of economic costs is limited to traditional costs, including costs of raw materials, direct labour, factory overhead, management/general, and marketing costs. In the modern economic paradigm, the concept of economic costs began to emerge which, the concept of costs was not limited to traditional costs, but began to develop with economic transaction costs. Economic transaction costs include negotiation costs, information gathering costs, fraud handling costs, information seeking costs, fraudulent handling costs, supervision and monitoring costs, bureaucratic costs and contract costs. The concept of economic transaction costs has become a reality in economic activities, and those involved in economic activities are unavoidable. The concept of cost is the most important concept in management accounting and cost accounting. The purpose of obtaining cost information is used for the planning, controlling, and decision-making processes. According to Williamson defines transaction costs as costs to run the economic system in addition, costs to adjust to environmental changes. Transaction costs are defined as the costs of specifying and enforcing the contract upon which the exchange is based, and thus include the costs of political and economic organization. The types of transaction costs according to Korchner and Picot are: Information seeking costs, negotiation costs and contract decisions (bargaining costs), supervision/monitoring costs and adaptation costs. Associated with the paradigm shift in economic transaction costs, if it is associated with current conditions, it shows that the concept of economic transaction costs is something that is real and is practiced in economic activities. The fact proves that economic transaction costs are an inseparable part of economic activity, besides that economic transaction costs cannot be avoided in economic activity. Anyone who carries out economic activities must be faced with economic transaction costs

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