

Economics of Regulation

Economics

When regulation improves outcomes, and what it costs.

Justifications and costs.

Justifications

Natural monopoly pricing

Information asymmetry, as in food safety

External costs, as in pollution

Systemic risk in finance

Protecting those who cannot assess risk

Costs

Compliance burden, heaviest on small firms

Barriers to entry that protect incumbents

Innovation slowed in regulated areas

Capture by the regulated industry

Compliance cost is broadly fixed per firm, so regulation falls hardest on the smallest entrants — often unintentionally.