Central European University
Department of Economics
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Economics of Law

General Information

Course level: This is an optional course for second year MA in Economics and second year MA in Economic Policy and Global Markets students.

Credits: 3 credits (6 ECTS credits)

Time: Winter Semester.

Prerequisites: Students should be familiar with basic concepts of microeconomics on the intermediate level.

Brief Description

Law and economics is one of the fastest-growing interdisciplinary areas, regarded by some as “the most important development in legal scholarship in the 20th century”. On one hand, economics is the science of rational choice in a world in which resources are limited relative to human desires. The legal environment, in turn, determines the “rules of the game” as played by rational agents. Thus it is quite natural for economists to question the origin, nature, and consequences of the “rules of the game” as they persist in individual and group behavior. Among the important issues that we will address throughout this course are:

- How does the legal system shape economic incentives in ways that lead to socially optimal behavior?
- How does one measure the benefits and costs of changes in legal rules?
- What is the nature of private property in a market economy?
- What is the appropriate role of a legal system in settling private disputes?
- What is the most efficient way of fighting crime?

After a brief introduction to the methodology of law and economics, this course utilizes the standard tools of economic analysis for the study of law and legal institutions, with special focus on: (i) economics of property; (ii) economics of contracts; (iii) economics of tort law, (iv) economics of criminal law and (v) economics of legal process. If time permits, we can also discuss other interesting subjects.
Learning Outcomes

Successful completion of the course enables students to

- apply modern economic analysis to problems of legal doctrine, reforms and design.
- Understand the effects of the legal system on economic behavior.
- Possess a thorough understanding of selected theories employed in Law and Economics.
- Build on existing research to develop own research ideas.

Course Requirements and Assessment

Grading will be based on a final exam (50%), homeworks assigned (25%) and article review (25%).

Homeworks

I will post you couple of homeworks which will check your understanding of the content of the course. Homeworks will be graded and, if time permits, we can discuss them in the class. You are encouraged to work together on homeworks. However, each person should write up his or her own answers separately. That is, you should feel free to discuss the questions and answers and come to a consensus on what you feel the right answers are; but then each person should go back and write up those answers individually, rather than passing around one set of answers for everyone to copy. Also, if you do work with other people, please list who you worked with on the first page of the homework.

Article Review

You are required to submit a brief summary of a journal article on law and economics. The list of available articles will be put on the course webpage. If the article is not from the list of articles located on the course webpage, it must be approved by me. Only one person may review any given article. The summary should identify the question posed in the article, the approach used to address the question, possible significance of the article and/or the results, and a brief critique of the article. Page Limit: 3 page maximum.

Main textbooks

During the course we will use


as a main textbook. Supplementary textbooks are

Dnes, Antony W., *The Economic Analysis of Law: Property, Contracts and Obligations*, Mason, Ohio: South Western, 2005 and

all of them are available in the library (as required readings). We will also use some supplementary papers, most of which can be downloaded from JSTOR.

**Detailed outline of the course and reading list**

1. **Introduction:** Scope and method of law and economics; common vs civil law; the concept of efficiency; Coase Theorem.
   
   Miceli (2004) ch. 1; Cooter and Ulen (2012) ch. 1, 3; Kaplow and Shavell (2002), Introduction

2. **Economics of Property Law.**
   
   Why do we need property law? What can be privately owned? How are property rights established? What remedies are the best when property rights are violated? Coase Theorem
   
   Miceli (2004) ch. 6-7; Cooter and Ulen (2012) ch. 4-5; Dnes (2005) ch. 2-3; Coase (1960); Demsetz (1967); Calabresi and Melamed (1972); Kaplow and Shavell (1996)

3. **Economics of Intellectual Property**
   
   Breadth and Length of Patents, Copyrights, Trademarks, Trade secrets
   
   Cooter and Ulen (2012) ch. 5.I; Cohen et al. (2000); Lemley (2007); Oberholzer-Gee and Strumpf (2007); Friedman et al. (1991)

4. **Economics of Contract Law**
   
   Classical contract law; evolution of contract; breach of contract; remedies for breach of contract (specific performance or damages); ways of termination the contract.
   
   Miceli (2004) ch. 4,5; Cooter and Ulen (2012) ch. 8-9; Dnes (2005) ch. 4-5; Ayres and Gertner (1989)

5. **Economics of Tort Law**
   
   Definition of a tort; negligence; contributory negligence; comparative negligence; strict liability; insurance; measuring compensation; judicial cost-benefit analysis (the Hand formula); product liability.
   
   Miceli (2004) ch. 2, 3; Cooter and Ulen (2012) ch. 6-7; Dnes (2005) ch. 6.; Shavell (1980); Shavell (2007); van Velthoven (2009)

6. **Economics of Crime**
   
   Factors influencing crime rate; optimal punishment and deterrence; policy against crime in Western Europe and USA.
   
7. Economics of Legal Process
   The goal of the legal system; the structure of lawsuit; voluntary and involuntary exchange of information; American and European cost rule

8. Extra material (if time permits)
   (a) Behavioral law and economics
   Jolls (2010); McAdams and Ulen (2008)

References


