

NORTHEASTERN UNIVERSITY
Department of Economics

ECN G268/G270, Economics of Law and Regulation
Spring 2008 Course Syllabus

Prof. Gregory Wassall

Class Hours

☉ Tuesday, 6-9 pm, in 270 West Village F.

Office Hours

My office ☐: 305 Lake Hall.

My office hours ☉ : Tuesday, 2:00-4:00, and Thursday, 2:00-4:00, and by appointment.

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Texts Used in This Course

R. Cooter and T. Ulen, *Law and Economics*, 5th ed. (Pearson Addison-Wesley, 2008).

W. K. Viscusi, et al, *Economics of Regulation and Antitrust*, 4th ed. (MIT Press, 2005).

J. Perloff, *Microeconomics*, 4rd ed. (Pearson Addison Wesley, 2007).

C. Winston, *Government Failure vs. Market Failure* (AEI-Brookings Joint Center for Regulatory Studies, 2006).

The first three of the list above are available in the NU bookstore. However, you do not need to buy all four books. Here are some suggestions. First, we cover large portions of Viscusi, et al; this one is irreplaceable. Second, we cover a lot of the Cooter and Ulen book, which is the best of several law and economics texts available. However, David Friedman's *Law's Order* text (see below) is a reasonable substitute for Cooter and Ulen, especially if you have already studied law. And it is also available at no cost on line at www.daviddfriedman.com/laws_order/index.shtml. Third, the Perloff text should be read only for students whose background in microeconomics is distant or weak. The assigned chapters in Perloff are far more detailed and comprehensive than the brief review of microeconomics found in Chapter 2 of Cooter and Ulen. Economics majors should not buy Perloff; you have already learned micro from texts more advanced than this. Last, the Winston text is available as a free download. Go to www.aei-brookings.org. Enter "Winston" in the Quick Search box, find the title, and download.

Supplemental Books on Reserve in Snell Library

M. Adler and E. Posner, *New Foundations of Cost-Benefit Analysis* (2006).

D. Friedman, *Law's Order* (Princeton University Press (2000).

R. Litan and C. Winston (eds.), *Liability* (1988).

W. Manning, E. Keeler, J. Newhouse, E. Sloss, and J. Wasserman, *The Costs of Poor Health Habits* (1991).

N. Mercuro and S. Medema (eds.), *Economics and the Law* (1997).

T. Miceli, *Economics of the Law* (1997).

E. Posner (ed.), *Chicago Lectures in Law and Economics* (2000).

F. Sloan, et al, *The Price of Smoking* (2005).

C. Wolf, *Markets or Governments*, 2nd ed. (1993).

Basic vs. Supplemental Readings

First, note that virtually all required readings are found in one of the four texts used in this course. This syllabus also references relevant readings, typically “suggested”, from the above supplemental books and from additional articles. All books, texts and supplemental, should be found on reserve in Snell Library. Journal articles typically were not placed on reserve. You can generally locate them in Snell Library’s journal collection or, in some cases, on line. Besides filling out one’s knowledge of any topic, the supplemental readings also provide opportunities for additional research in a topical area. For example, they can serve as a starting point for writing a research paper. Besides the above, I will occasionally post links on our Blackboard web site to relevant readings available on the internet.

Who Takes This Course?

This course is populated mostly by LPS doctoral students and, to a lesser degree, by economics master’s students. This combination presents something of a pedagogical challenge. Economics graduate students expect everything to be explained using mathematics, and my experience indicates that LPS students are generally math-averse. Because of this, the usual mathematical style of presentation found in economics graduate courses is not used. Instead, we will primarily use graphs and verbal discussions. However, we do insist on a common starting point: It is assumed that those enrolling in this course have had the equivalent of at least an undergraduate intermediate level course in microeconomics. This is what is found in Chapters 1-13 in Perloff. If your microeconomics background is weak, the first thing you should do is read those chapters. Some topics in these chapters that are particularly relevant to us will be reviewed in class as well.

Course Description and Requirements

This course covers a variety of topics in the fields of economics of regulation and of law and economics. Economics of regulation examines the role of government in altering market outcomes. It draws from areas such as welfare economics, public economics, and industrial organization. Law and economics examines the economic consequences of laws and legal systems, and their economic efficiency. It also draws heavily on the field of welfare economics. All these fields are branches of microeconomics.

The course requirements consist of a ***take-home exam***, a ***group presentation and paper***, and an ***individual paper***.

The ***take-home exam*** will be split into two parts to spread your work load more evenly over this semester. The exam installments consist of a series of short analytical or policy questions and case studies regarding various topics covered in the course. They ask you to discuss the issues raised in each case, and to address specific topics. Combined, the exams count as 60 percent of the course grade. The two installments will be distributed well in advance of their due dates. Their timing will be announced during the semester.

In the ***group presentation***, the class will self-select (with my help, if necessary) into small groups (3-6 students). Each group will choose a course-relevant (but preferably recent and/or controversial) topic, analyze the economic and policy issues surrounding it, and to present its analysis in class. These topics should be roughly coordinated with the applied sections of this course, i.e., the sections beginning roughly with the January 29 class. Each group should also summarize its presentation in a short written version, which should be about five to ten typewritten pages in length, or as the power point version of your presentation. The combined presentation and submission count as 15 percent of the course grade. A list of past topics chosen by students in this course will be posted on Blackboard.

In the ***individual paper*** you are asked to pick a topic of interest in regulation or law and discuss and analyze critically the issues involved in implementation and/or enforcement. Since this is a course in economics of law and regulation, your analysis should address efficiency and equity issues. There is a wide range of possible topics. To help in making a choice, a list of topics chosen by students in past incarnations of this course will be made available on line. This paper should be objective and scholarly in nature. A typical length is 10-15 typewritten pages. It counts as 25 percent of the course grade. A list of past topics chosen by students in this course will be posted on Blackboard.

All submissions are expected to be original work, and to meet criteria of academic honesty as outlined in the University Student Handbook. Failure to comply with this requirement on any assignment will result in, at the very least, a failing grade in the course.

Students are asked to submit exams and papers on line. In cases where performance falls between two grades, class participation is the deciding factor. All course papers and the last installment of the take-home exam are due by April 22, the Tuesday of final exam week.

Course Readings:	
<u>Week</u>	<u>Topic and Readings</u>
1/8	<u>Economics Methodology, Review of Markets and Surplus</u>
Required:	If your microeconomics background is weak and your law background is adequate, read and/or review Perloff, Chapters 1-13. Some of the material in these chapters will be reviewed in class as needed later.
	If your microeconomics background is strong and your law background is weak, read Coote and Ulen, Chapters 1-3. Similar though not identical topics are covered in Friedman, Chapters, 1-4 and Intermezzo.
Suggested:	H. Hovenkamp, "Law and Economics in the United States: A Brief Historical Survey," 19 <i>Cambridge Journal of Economics</i> 331 (1995).
	Mercuro and Medema, "The Jurisprudential Niche of Law and Economics" (Chapter 1, including the Appendix) provide another review; it includes a lengthy discussion of the concept of economic efficiency.
	C. Sunstein, "Social Norms and Social Roles," in Posner explores some concepts in the social sciences relevant to this course: preferences, choices, norms, and the role of law.
1/15-1/22	<u>The Framework: Efficiency, Market Failure, and Government</u>
Required:	Perloff, Chapters 9, 10, 18, 19.
	Coote and Ulen, Chapter 2, Sections IX and X, pp. 39-52, if you haven't already read this.
	Winston, Chapters 1, 2, 6, 7, 8.
Suggested:	Mercuro and Medema, "Public Choice Theory" (Chapter 3) cover the methodological underpinnings of the "government failure" argument.
	J. Ramseyer, "Public Choice," in Posner covers similar ground with some interesting examples thrown in.
	C. Wolf, "A Theory of Nonmarket Failure," 22 <i>Journal of Law and Economics</i> 107 (1979). For more detail, read Wolf's book, which is on reserve.
1/29-2/5	<u>Introduction to Regulation; Regulation of Natural Monopoly</u>
Required:	Viscusi, et al, Chapters 1, 2, 4 (pp.79-90), 10, 11, 12, 14, 15.
	Winston, Chapter 3.

<u>Week</u>	<u>Topic and Readings</u>
	Friedman, Chapter 16.
	Perloff, Chapter 11.
Suggested:	S. Borenstein, "The Trouble with Electricity Markets: Understanding California's Restructuring Disaster," 16 <i>Journal of Economic Perspectives</i> 191 (2002).
	G. Stigler, "The Theory of Economic Regulation," 2 <i>Bell Journal of Economics and Management Science</i> 3 (1971). A classic article on the motivations of regulators.
2/12	<u>Cost-Benefit Analysis: A Brief Primer</u>
	Viscusi, et al, Chapter 2, pp. 30-39.
	Adler and Posner, Introduction. Selectively read other chapters depending on your interest.
2/19-2/26	<u>Economic and Social Regulation</u>
Required:	Viscusi, et al, Chapters 16, 17, 19, 20, 23.
	Winston, Chapters 4, 5.
	Friedman, Chapter 9.
Suggested:	R. Crandall, and Graham, "The Effect of Fuel Economy Standards on Auto Safety," 32 <i>Journal of Law and Economics</i> 97 (1989).
	Manning, et al, Chapters 1-7.
	S. Peterson, G. Hoffer, and E. Millner, "Are Drivers of Air-Bag Equipped Cars More Aggressive? A Test of the Offsetting Behavior Hypothesis," 32 <i>Journal of Law and Economics</i> 329 (1989).
	P. Portney, I. Parry, H. Gruenspecht, and W. Harrington, "The Economics of Fuel Economy Standards," 17 <i>Journal of Economic Perspectives</i> 203 (2003).
	Sloan, et al, Chapters 1-5.
	A. Sykes, "An Introduction to Regression Analysis" in Posner provides a background on interpreting the kinds of empirical studies that economists conduct, and which we will begin to examine in this section.
	C. Winston, "U.S. Industry Adjustment to Economic Deregulation," 12 <i>Journal of Economic Perspectives</i> 89 (1998).
3/4	Spring break week - no class.

<u>Week</u>	<u>Topic and Readings</u>
3/11-3/18	<u>Property: Law, Economics and Regulation</u>
Required:	Cooter and Ulen, Chapters 4, 5.
	Friedman, Chapters 5, 10, 11.
	Viscusi, et al, Chapter 21, 24.
Suggested:	G. Brown and J. Shogren, "Economics of the Endangered Species Act," 12 <i>Journal of Economic Perspectives</i> 3 (1998).
	R. Coase, "The Problem of Social Cost," 3 <i>Journal of Law and Economics</i> 1 (1960). The article that started it all; it's well worth reading. It's also been reprinted in a number of anthologies.
	K. Dam, "Intellectual Property in an Age of Software and Biotechnology," in Posner.
	R. Epstein, "Transactions Costs and Property Rights: Or Do Good Fences Make Good Neighbors?" in Posner.
	Mercuro and Medema, "Neoinstitutional Law and Economics" (Chapter 5) summarizes the general methodology found in many of the writings on this topic.
	Economics graduate students will find a more rigorous (i.e., mathematical) treatment of property law in Miceli, Chapters 6 and 7.
3/25-4/1	<u>The Economics of Tort Law</u>
Required:	Cooter and Ulen, Chapters 8-9
	Friedman, Chapters 6, 7, 14, 18.
	Viscusi, et al. Chapter 22.
Suggested:	P. Bonney, "Manufacturers' Strict Liability for Handgun Injuries: An Economic Analysis," 73 <i>Georgetown Law Journal</i> 1437 (1985).
	S. Levermore, "Carrots and Torts," in Posner. Compares positive and negative inducements for limiting the incidence of torts.
	Litan and Winston, Chapters 1, 2, 8. Selectively read Chapters 3-7 based on your interest in the subject matter.
	Miceli, Chapters 2-3, has a more quantitative treatment of this subject.
	R. Posner, "A Theory of Negligence," 1 <i>Journal of Legal Studies</i> 29 (1972).
	M. White, "Asbestos and the Future of Mass Torts," 18 <i>Journal of Economic Perspectives</i> 183 (2004).

<u>Week</u>	<u>Topic and Readings</u>
4/8-4/15	<u>The Economics of Contract Law</u>
Required:	Cooter and Ulen, Chapters 6-7.
	Friedman, Chapters 12-13.
	Perloff, Chapter 20.
Suggested:	
	R. Craswell, "Freedom of Contract," in Posner focuses on informational issues in contracting, and the limits of contract law in achieving desired outcomes.
	D. Friedman, "An Economic Analysis of Alternative Damage Rules for Breach of Contract," 32 <i>Journal of Law and Economics</i> 2 (1989).
	Miceli, Chapters 4-5, has a more quantitative treatment of this subject.
	E. Posner, "Agency Models in Law and Economics," in Posner. Agency models show up in many places in L&E, but particularly in contracts in torts. Here is a background reading on the topic.
4/22	Final Exam Date - paper assignment is due by 4/22; remaining portion of take-home exam is due by 4/22.