

NORTHEASTERN UNIVERSITY
Department of Economics

ECN G268/G270, Economics of Law and Regulation
Spring 2006 Course Syllabus

Prof. Gregory Wassall
Office: 305 Lake Hall
Phone: 617-373-2196; e-mail: g.wassall@neu.edu

Class Hours

Tuesday, 6-9 pm, in 236 Forsyth.

Office Hours

Tuesday, 2:30-4:30 pm, and Wednesday, 1:00-3:00 pm, and by appointment at other times.

Course Materials in the Bookstore

R. Cooter and T. Ulen, *Law and Economics*, 4th ed. (Scott Foresman, 2004).

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

H. Perloff, *Microeconomics*, 3rd ed. (Pearson Addison Wesley, 2004).

Yes, these are a lot of books and money. So here's some advice. The first two are **required** for the course. The third is **optional**. However, if your background in microeconomics is weak or not recent, I recommend buying a copy of Perloff. Used copies should also be available. The Perloff text is far more detailed and comprehensive than the brief review of microeconomics in Chapter 2 of Cooter and Ulen. Also, the Friedman text (see below) is a reasonable substitute for Cooter and Ulen, and is available at no cost on line, as well as on reserve.

Other Books on Reserve in Snell Library

Y. Barzel, *Economic Analysis of Property Rights* (1989).

R. Crandall, H. Gruenspecht, T. Keeler and L. Lave, *Regulating the Automobile* (1986).

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. Mercurio 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).

J J. Stiglitz, et al, *The Economic Role of the State* (1989).

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

Basic vs. Supplemental Readings

This syllabus references relevant readings from the above books and from additional articles. All should be found on reserve in Snell Library or, in some instances, on line. Journal articles were not placed on reserve. You can generally locate them in Snell Library's journal collection or, in some cases, on line.

On this course's web site you will also find a number of links to policy research think tanks' web sites. These web sites typically contain, or refer to, additional research studies in areas relevant to this course. I may refer to specific studies produced by these think tanks from time to time. The supplemental readings on reserve, in the library, and in these web sites provide opportunities for additional research in a topical area; for example, they can serve as a starting point for writing a research paper.

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 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 the economic efficiency of legal structures. It also draws heavily on the field of welfare economics and on the economic concept of efficiency. All these fields are branches of microeconomics.

This course will be populated by students from several different graduate programs, mostly not economics. Because of this, the usual mathematical style of presentation found in economics graduate courses is not used; instead, we will stick primarily to graphs and verbal discussions. However, we do insist on a common starting point: It is assumed that those enrolling in this course have had at least an undergraduate intermediate level course in microeconomics. This is the rough equivalent of having covered Chapters 1-13 in Perloff. If your microeconomics background is weak, the first thing you should do is read and/or review those chapters. Some topics in these chapters that are particularly relevant to us will be covered in class as necessary.

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 installments will be distributed well in advance of their due dates. Their timing will be announced throughout the semester.

In the **group presentation**, the class will self-select (with my help, if necessary) into small groups (3-5 students). Each group will choose a course-relevant (but preferably recent and/or controversial) topic, analyze the economic and other 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 February 7 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 a power point version of your presentation. The combined presentation and submission count as 15 percent of the course grade.

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.

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 25, the Tuesday of final exam week.

Course Readings:	
<u>Week</u>	<u>Topic and Readings</u>
1/10/06	<u>Introduction; Review of Markets and Economic Efficiency</u>
Required:	If, in entering this course, 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, in entering this course, your microeconomics background is strong and your law background is weak, read Cooter 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.
1/17-1/24	<u>Efficiency, Market Failure, Government Intervention and Failure</u>
Required:	Perloff, Chapters 9, 10, 18, 19.
	Cooter and Ulen, Chapter 2, Sections IX and X, pp. 39-52, if you haven't already read this.
	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.
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.
	Stiglitz, Part I, provides another take on government failure.
1/31	<u>Cost-Benefit Analysis: A Primer</u>
	Viscusi, et al, Chapter 2, pp. 30-39.

<u>Week</u>	<u>Topic and Readings</u>
2/7-2/14	<u>Property Law and Externalities</u>
Required:	Cooter and Ulen, Chapters 4, 5.
	Friedman, Chapters 5, 10, 11.
	Viscusi, et al, Chapter 21, 24.
Suggested:	Barzel, Chapters 1, 2, 4-9.
	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.
2/21-2/28	<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.
	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.
3/7	Spring Break Week - No class.

<u>Week</u>	<u>Topic and Readings</u>
3/14-3/21	<u>Economic and Social Regulation</u>
Required:	Viscusi, et al, Chapters 16, 17, 19, 20, 23.
	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).
3/28-4/4	<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>
4/11-4/18	<u>The Economics of Contract Law</u>
Required:	Cooter and Ulen, Chapters 6-7.
	Friedman, Chapters 12-13.
	Perloff, Chapter 20.
Suggested:	Barzel, Chapter 3.
	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," <i>32 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.
4/25	Final Exam Week - paper assignment is due by 4/25; remaining portion of take-home exam is due by 4/25.