Economic Analysis of Law

ECO 320H
Fall, 2014
Course Outline

Prof. Donald N. Dewees       Department of Economics
150 St. George St., Room 323      University of Toronto
416-978-4473

Class time:  Wed, 2-4 PM   Sidney Smith 2135
Tutorials:  Mon, 4-5 PM   Sidney Smith 2118 ??
Tests:   Mon, 4-5 PM,   Oct. 6 EX 310, 320;   Nov. 3 EX 300

Tutorials: **Before and after term tests:** Mondays: Sept. 29, Oct. 20, 27, Nov. 10.  **Final review:** Monday, Dec. 1, tba; Wednesday, December 3, 4-5:30 PM, tba; **December xx, 4-6PM,** xx room TBA.
TAs:   David Zhou, Rose Chen

**Administrative Matters**

**Prerequisites:** ECO 200Y/204/206Y and MAT 133Y/123&124H/135&136H/137Y/157Y; time and energy for reading and thinking about the course, good English language skills – this is a verbal course.

**Marking Scheme:** mid-term tests 20% for the first test, 25% for the second test, in-class exercise 5%, final exam 50%.  **Term tests Mon., October 6; Mon., November 3, 4-5PM.**  Short exercise worth 5% done at end of class on September 17, no make-up.  Absence from the tests will only be excused for serious illness, notified to me no later than the day after the test, with a note from a doctor that I deem sufficient.  Workforce absenteeism averages 3%.  An excused absence leads to a make-up term test.  An unexcused absence leads to a zero.

**Office hours:** Max Gluskin House 323, Tuesday, 3-4 PM, Wednesday, 4-5 PM.  Ask questions about the course in these office hours after studying relevant readings.  See this video for motivation:  [http://www.youtube.com/watch?v=576TsBiJpm4](http://www.youtube.com/watch?v=576TsBiJpm4).

Web support: this is a **Blackboard course.** Blackboard will have announcements, readings, class notes and a discussion board.  Please submit general questions to the discussion board.  Your classmates may answer them; if not, I will try to answer within two working days.  Everyone can benefit from the question and answers.  Log in to the Portal using your UTORid and password.  Follow the link to ECO 320.

**Email policy:** Please address questions about the course ideas, materials, substance and procedure to the discussion board.  For personal issues only, email me at:  [deweess@chass.utoronto.ca](mailto:deweess@chass.utoronto.ca).  Use your UToronto email account and write ECO 320 and your name in the subject line.  I will try to respond within two working days.
1. Course Materials

BUY:

Reference:

Other Law and Economics books of interest (all entirely optional):


Web notes for C&U at:


Finding Journals:
The reading list includes some journal articles or working papers. The journals are available to UofT students through the UofT library on JSTOR, http://www.jstor.org . A link is provided below to the particular journal. Browse for the issue, click on the article.

For off-campus access to journals, go to:

You will be asked to provide your library barcode and a PIN, which should be the last 4 digits of your student number, unless you have changed it. Once you log in, you can access all JSTOR articles. Use the search function to search for the name of the article. The article you want may not be at the top of the results, so check the article with the exact title as listed in the outline. Once you find the article, click on it, and view it online or download it as a pdf file.
2. Course Goals

- Learn basic elements of the law, predominantly Canadian and US common law and some statutory law. Learn how the basic elements of the legal system work.
- Learn how to use economic tools to analyse and understand the efficiency and distributional effects of alternative legal doctrines.
- Understand the implications of costly information, limited information and transactions costs for the application of economic models to real-world problems.

3. Course Topics and Readings

Week 1

1. Introduction to law, legal institutions and language.
   C&U, Chapter 1: Introduction to L&E (pp. 1-10) [5th: pp. 1-13].
   Chapter 3: Introduction to Law and Legal Institutions (55-69) [5th: 59-73]
   Background: Waddams, Chs. 1, 3, 10.
   Optional: short overview of the Canadian court system by the federal Department of Justice, see: http://www.justice.gc.ca/eng/dept-min/pub/ccs-ajc/index.html.

Week 2

2. Application of Economics to Legal Issues
   Finish the readings listed for Week 1.
   C&U, Chapter 2 Microeconomics Review, review your micro theory notes especially for Pareto, Kaldor-Hicks, welfare comparisons.
   Read C&U, Chapter 4: An Economic Theory of Property (half: 70-91) [5th: 74-96].
   Economic theory of property, property as bargaining.

Weeks 3 & 4:

3. Property Rights
   Property as a social contract. Coase, transactions costs. Protecting property rights: damages versus injunctions.
   Chapter 5: Topics (pp. 112-186, ex as noted below, net 47 pgs) [5th: 119-194, net 45 pgs.]
   Patents, copyright; skip I.C (135-138) [5th: 143-147]; public and private property; establishing property rights; skip II.E and III (153-166) [5th: 161-174]; remedies, skip IV.D and E (174-184) [5th: 182-192].


October 6: Term Test, Monday, 4PM.
Weeks 5 & 6:

4. Torts

C&U, Chapter 6: An Economic Theory of Tort Law (pp. 187-227) [5th: Ch. 8, 322-364.]
Chapter 7: Topics (pp. 230-274 except as noted below, net 41 pgs) [5th: Ch 9, 367-413 net 42]; read I.A: relaxing the core assumptions: skip I.B.1&2 (244-247) [5th: 381-385]; read I.B.3&4 and II. computing damages (248-261) [5th: 385-398]; skim III empirical assessment.

Optional: D. Dewees, “The Efficiency of Comparative Negligence,” 1-page summary. (P)


Weeks 7 & 8:

5. Contracts

C&U, Chapter 8: An Economic Theory of Contract (pp. 276-305) [5th: Ch. 6, 195-244].
Bargaining theory vs economic theory of contract; remedies; default rules and gap-filling.
Chapter 9: Topics (pp. 307-372) [5th: Ch. 7, 245-310]. Optional: skim math appendix (373-381) [5th: 311-321].
Remedies, contingencies, reliance, defences & excuses.


Dell Dimension One-Year Limited Warranty (P)


Test: November 3: Contracts & Torts, Monday 4PM

Weeks 9 & 10:

6. Procedure

The value of a claim, when to sue, the agency problem with your lawyer; information and the settlement process; cost and fee rules in the trial; appeals.
Chapter 11: Topics. (pp. 419-453) [5th: Ch. 10, Sec. VII, 474-484.]
The market for legal services, class actions, nuisance suits, empirical assessment. **Skip sections G & H (pp. 433-436); skim section II. (pp. 442-452).**


**Background:** McMillan, 2011, “Litigating in Canada,” short overview of differences from US procedure. (P)

### Weeks 11 & 12:

**7. Crime**


Chapter 13, Topics (pp. 485-532). [5th: Ch. 12, pp. 519-567.]

Criminal law theory; rational crime; intent and irrationality; optimal enforcement and deterrence; private enforcement and deterrence, death penalty, drugs, guns, US trends.


**Background:** Polinsky, A. Mitchell and Steven Shavell, 2000, “The Economic Theory of Public Enforcement of Law” *J. Econ. Literature* 38:1, March, 45-76.  