Law and Economics

The 1st Meeting
Elective in Double Major
NSD, Peking University
Fall 2010
Instructor: Zhaofeng Xue
Introduction

• Syllabus
• Intellectual Foundation of Law and Economics
• The Founding Fathers
• The Past & Future of L&E
Syllabus

• Overview

The course teaches the students economic way of thinking by subjecting the phenomenon of law and regulation in their broadest sense to economic analysis. Though a lot of materials used in this course are related to U.S. common law, this is not a course in law. Rather, it is a course introducing the universal economic analysis and its use in examining the phenomenon of law and regulation. Anyone who is interested in learning economics and its application is welcome to take the course.
Syllabus

• Requirement

No prior knowledge of either law or economics is required, though a sound understanding of basic microeconomics is surely beneficial. Reading load is demanding, not only because almost all of them are in English but also because they are rather voluminous. It is highly encouraged for the students to form study groups in size of 3-5 persons from the very beginning of the semester and stick to that so to take full advantage of the teamwork.

• Language

Almost all readings are in English, while lectures, discussions and examinations shall be conducted in Chinese.
Syllabus

• Textbook and Readings
  2. Supplementary handouts
  3. *The Concise Encyclopedia Economics*
     http://www.econlib.org/library/CEE.html
Syllabus

• Assignment

  Among others, each student will be assigned, or volunteer, two court cases or academic papers to be presented in the class. Each presentation is in two parts: (1) summary of the case/paper and (2) Q&A, each of which is supposed to be limited in 5 minutes in length.
Syllabus

• Grades

The final grade will be based upon two closed-book mid-term exams (15 percent each), classroom performance (20 percent), and a closed-book final exam (50 percent).
Syllabus

• **Major Topics**
  1. Introduction to Law and Economics
  2. Normative Economics
  3. Cost, Choice, and Rent
  4. Property Rights
  5. Market and Price System
  6. Externality and Coase Theorem
  7. Public Choice and Legal Procedure
  8. Asymmetric Information and Contractual Arrangement
  9. Uncertainty, Risk, Tort, and Insurance
  10. Competition and Competition Law
Syllabus

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Syllabus

- Note
  1. My lecture does not simply replicate materials available in the required textbook and handouts. Students should take careful notes since my lecture comprises important elements of the course and part of the examinable syllabus.
  2. The syllabus in effect represents the terms of a contract. No one is required to enter into this contract; the National School of Development offers many other fine courses.
1. The subject to be studied is to be conceived as a system of constrains and rewards interacting with individuals.

2. The purpose of scientific analysis is to identify the systematic component of phenomena and separate that component from the random phenomena.

3. Self-interest is a strong regularity of human behavior. It can explain precisely why people do conform to the moral and legal norms of the social community.

4. Marginal rather than gross or average effects are the important effects to analyze in understanding human response to law.
5. Goods and services are multidimensional; the regulation of one dimension will affect the other dimensions of the good or service.

6. In evaluating the effects of laws, the multiparty, private transactional response is important.

7. In evaluating any market or regulatory arrangements, it is important to compare the arrangement being evaluated against other viable institutional alternatives. Since perfection is not attainable, one should search for the best available.

8. Taking full advantage of common law tradition in which the judges carefully put down the recorded information.

Further reading:
Founding Fathers


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<th>APPENDIX A</th>
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<td>PARTICIPANTS</td>
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Founding Fathers

APPENDIX A
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Emory University

Jesse W. Markham
Harvard University

John S. McGee
University of Washington

John H. Moore
Emory University

Thomas D. Morgan
Emory University

Sam Peltzman
University of Chicago

Richard A. Posner
University of Chicago

George L. Priest
Yale University

Kenneth E. Scott
Stanford University

Bernard H. Siegan
University of San Diego

George L. Stigler
University of Chicago

Michael J. Trebilcock
University of Toronto

W. Allen Wallis
University of Rochester

Richard O. Zerbe
University of Washington
## Founding Fathers

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Aaron Director (Sep. 21, 1901 – Sep. 11, 2004)

Brother of Rose Friedman; brother-in-law of Milton Friedman

J. Viner, Bank of England, LSE, Coase, JLE

W. Liebeler: For four days each week Ed Levi would develop the law and would use the traditional techniques of legal reasoning to relate the cases to each other and create a synthesis of the kind all the lawyers here are familiar with to explain and rationalize the cases. For four days Ed would do this, and for one day each week, Aaron Director would tell us that everything that Levi had told us the preceding four days was nonsense. He used economic analysis to show us that the legal analysis simply would not stand up.

R. Bork: One of the pleasures of that course was to watch Ed agonizing as these cases he had always believed in were systematically turned into incoherent statements. Ed fought brilliantly for years before he finally gave way.

G. Stigler: When Director began asking simple questions about some comfortable belief I had proposed, the odds were high that I would end up with a different view of the matter.
Steven Cheung: For the occasion, Director assembled a stellar cast: Martin Bailey, Milton Friedman, Arnold Harberger, Reuben Kessel, Gregg Lewis, John McGee, Lloyd Mints, George Stigler, and of course Coase and Director themselves. The debate began with everyone siding with Pigou against Coase. It is recalled that Coase stood stoutly on his views. According to Stigler, in the midst of the debate Friedman opened fire and the bullets hit everyone except Coase. Coase himself remembers that when he found himself still standing after Friedman’s slaughter, he knew he was home free. (From “Coase, Ronald, H.,” New Palgrave Dictionary of Economics, 1998)
I proposed ... a summer program in economics for law professors ... In time, the bar, the bench, and perhaps even the legislature, might grasp the simple but powerful lessons of open markets, free contracts, and private property if we could reach their teachers.

... we used the innovative and stimulating first edition of Alchian and Allen’s *University Economics* as the assigned text. This was the most rigorous microeconomics text available, and it was the only textbook, at the time, that included some of the newer ideas on property rights economics.

Paul Samuelson ... lectured on the program ... Milton Friedman ... the first judges’ program (1976) was his first stop on returning to the US after collecting his Nobel Prize in Stockholm...

The measurement of the influence after decades

The future of Law and Economics
Enjoy the course!