

# Contents

<i>List of figures</i>	xii
<i>List of tables</i>	xiv
<i>Preface</i>	xv
<i>Acknowledgments</i>	xxii
<i>Table of cases</i>	xxiii
<b>1 Principles of microeconomics (I)</b>	<b>1</b>
<i>A basic principle: the fungibility of money</i>	<i>1</i>
<i>Cost</i>	<i>2</i>
<i>Demand curves and supply curves</i>	<i>7</i>
<i>The equilibrium of a competitive market</i>	<i>10</i>
<i>Price ceilings</i>	<i>11</i>
<i>The market for lawyers</i>	<i>13</i>
<i>The factor market</i>	<i>15</i>
<i>The effects of a tax</i>	<i>22</i>
<i>The effects of a subsidy</i>	<i>24</i>
<i>Elasticities</i>	<i>25</i>
<i>Income and substitution effects</i>	<i>31</i>
<b>2 Principles of microeconomics (II)</b>	<b>34</b>
<i>Monopolies and cartels</i>	<i>34</i>
<i>Relation between marginal and average amounts</i>	<i>36</i>
<i>Cartels</i>	<i>37</i>
<i>Game theory and the prisoners' dilemma</i>	<i>38</i>
<i>Rent-seeking behavior</i>	<i>40</i>
<i>Capital; human capital</i>	<i>41</i>
<i>The present value of future payments</i>	<i>41</i>
<i>Interest rates</i>	<i>44</i>
<i>Efficient capital markets</i>	<i>45</i>
<i>Externalities</i>	<i>46</i>
<i>Attitudes toward risk</i>	<i>46</i>
<i>Markets with incomplete information</i>	<i>47</i>
<i>Public goods</i>	<i>50</i>
<i>Appendix 2.1: Continuous compounding</i>	<i>52</i>

<b>3</b>	<b>Introduction to the legal system</b>	<b>55</b>
	<i>Litigation and the court system</i>	55
	<i>Precedents and the common law</i>	57
	<i>Different standards of proof</i>	61
	<i>Quantifying the standard of proof</i>	61
	<i>The U.S. Constitution</i>	63
	<i>The division of jurisdiction between federal and state courts</i>	66
<b>4</b>	<b>Property law</b>	<b>69</b>
	<i>Efficiency</i>	70
	<i>Transaction costs</i>	71
	<i>Bilateral monopoly</i>	73
	<i>How disputes are decided by law</i>	74
	<i>The Coase Theorem</i>	76
	<i>Eminent domain</i>	79
	<i>Self-assessment</i>	80
	<i>How the entitlement should be protected</i>	81
	<i>How to determine ownership of property</i>	85
	<i>Intellectual property</i>	89
<b>5</b>	<b>Problems of incomplete property rights</b>	<b>102</b>
	<i>Inalienability</i>	102
	<i>Problems when there are no property rights</i>	107
	<i>Problems when property rights are divided</i>	113
	<i>Problems when property rights are uncertain</i>	118
	<i>Limits on the disposition of property at death</i>	119
	<i>Appendix 5.1: When should a tree be harvested?</i>	123
<b>6</b>	<b>Informal creation of property rights</b>	<b>126</b>
	<i>Property rights in surfing</i>	126
	<i>The Gold Rush</i>	126
	<i>Sharecropping contracts</i>	128
	<i>Whaling customs</i>	129
	<i>The division of profits in law firms</i>	130
	<i>The Shakers</i>	131
<b>7</b>	<b>The law of contracts</b>	<b>133</b>
	<i>The economic functions of the law of contracts</i>	133
	<i>General rules of contract law</i>	135
	<i>The common law of slavery</i>	140
	<i>The controversy concerning standard form contracts</i>	140
	<i>Unconscionability</i>	143
	<i>Remedies for breach of contract</i>	146
	<i>The lost-volume or expansible seller</i>	150
	<i>Specific performance</i>	152
	<i>Liquidated damages and penalties</i>	154

<b>8 Torts</b>	158
<i>Negligence</i>	158
<i>Strict liability</i>	159
<i>The Learned Hand rule</i>	161
<i>The law of rescue</i>	162
<i>The collateral source rule</i>	163
<i>Comparative negligence</i>	163
<i>More on strict liability</i>	164
<i>Medical malpractice</i>	167
<i>Contribution</i>	171
<i>Damages</i>	173
<i>Subrogation</i>	179
<i>Subrogation and potential moral hazard of tort victims</i>	180
<i>The economics of subrogation</i>	180
<i>Moral hazard arising from abolition of the collateral source rule</i>	181
<i>A note on trial strategy: should the jury know about insurance?</i>	182
<i>Whether dangerous conduct should be controlled by tort law or regulation</i>	182
<i>No-fault automobile insurance</i>	185
<b>9 The economics of litigation</b>	189
<i>An optimal judicial system</i>	189
<i>The standard of proof for a preliminary injunction</i>	190
<i>The economic model of litigation</i>	190
<i>Pre-trial discovery</i>	191
<i>Procedural rules which make litigation more efficient</i>	191
<i>Agency problems</i>	192
<i>Class actions</i>	196
<i>Potential benefits of class actions</i>	199
<i>Waivers of the right to participate in class actions</i>	200
<i>The English rule</i>	201
<i>Court delay</i>	203
<i>Expert witnesses</i>	205
<i>Determining the quality of a judge (or court)</i>	206
<i>Whether the common law is efficient</i>	207
<i>Rules of collateral estoppel</i>	210
<i>The jury</i>	211
<i>Juries in death penalty cases</i>	215
<i>Analyzing litigation with game theory</i>	216
<i>An example involving Rule 68</i>	217
<i>Deciding whether to file a lawsuit</i>	217
<i>The solution under the American rule</i>	219
<i>The solution under the English rule</i>	219
<i>An example with two players</i>	220
<i>An example of subrogation, with no injury if tortfeasor takes care</i>	222
<i>A. Under the American rule</i>	222
<i>B. Under the English rule</i>	224

<b>10 Criminal law</b>	230
<i>The economic model of crime and punishment</i>	230
<i>The optimal type of punishment</i>	232
<i>An application: Megan's Laws</i>	233
<i>Evaluating the system of law enforcement</i>	236
<i>Measuring the determinants of crime and the benefits of law enforcement</i>	240
<i>Markets for crime</i>	243
<i>Externalities resulting from precautions taken against crime; Lojack</i>	248
<i>The economics of gun ownership and use</i>	249
<i>Gun ownership and "hot" burglaries</i>	250
<i>Concealed-carry and right-to-carry laws</i>	251
<i>Laws restricting access to firearms</i>	252
<i>A proposed tax on firearms</i>	253
<i>Gun buyback programs</i>	254
<i>Changing the design of firearms</i>	255
<i>Regulation of bullets</i>	255
<i>Factors affecting the quality of law enforcement</i>	256
<i>Public versus private enforcement of law</i>	257
<b>11 Corporations and financial markets</b>	261
<i>The characteristics of the corporation</i>	261
<i>Common and preferred stock</i>	262
<i>Potential conflicts between managers and stockholders</i>	264
<i>Compensation of investment advisors</i>	267
<i>The competition to be the state of incorporation</i>	268
<i>The prohibition of insider trading</i>	269
<i>Conflicts among shareholders</i>	270
<i>Deposit insurance and moral hazard</i>	271
<i>Bankruptcy law</i>	272
<i>The economics of bank regulation</i>	275
<b>12 Taxation</b>	279
<i>The effects of a death tax</i>	279
<i>Social security</i>	280
<i>The effect on savings of tax rules concerning interest</i>	284
<i>The proposal for a tax on consumption</i>	284
<i>Charitable contributions</i>	286
<i>Depreciation</i>	287
<i>Percentage depletion</i>	288
<i>The subsidy for residential housing</i>	292
<i>The social cost of the tax exemption of interest on municipal bonds</i>	293
<b>13 Labor law</b>	297
<i>Covenants not to compete</i>	297
<i>General and firm-specific human capital</i>	298
<i>Maximum and minimum wages</i>	301
<i>Employment protection laws</i>	303

*Market adjustments to employment protection laws* 304

*Regulation of pensions* 310

*Comparable worth* 313

*Glossary*

316

*Notes*

327

*Index*

340