Economics 522: Economics of Law
Fall 2010
Dan Quint

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Class website: http://www.ssc.wisc.edu/~dquint/econ522
(Lecture notes, homeworks, etc. will be posted here)

Lectures: Mondays and Wednesdays, 2:30-3:45 p.m., Education L196

Final Exam: Monday, December 20, 12:25-2:25 p.m., location TBA

Grades: Grades will be based on occasional problem sets (20%); two in-class midterms tentatively scheduled for October 13 and November 10 (20% each); and a final exam on December 20 (40%).

Readings: The “required” (whatever that means) textbook is Law and Economics (Fifth Edition), by Robert Cooter and Thomas Ulen (Addison Wesley 2007), available at the bookstore. Additional material is online at http://www.cooter-ulen.com. I don’t mind if you use an older version of the textbook, although the references in the book to the online material won’t match up. Copies of the textbook will also be on reserve at Memorial Library and the Social Science Library (8th floor of Social Sciences).

The bit of game theory I’ll use should be covered in whatever textbook you used for Econ 301 – I’ve listed the chapters in Intermediate Microeconomics: A Modern Approach by Hal Varian (W. W. Norton 2005).

The papers listed on the outline below are all available online. I’ve placed stars next to those that I feel are most important. Most are listed with links through JSTOR, which requires a subscription and therefore may only work from on-campus computers. The rest will be placed on electronic reserve through the UW library system; starting on the first day of class, you should be able to access them at https://www.library.wisc.edu/course-pages/viewer/show/3656 or through your own My UW page. (Please let me know if you have any problem accessing any of the supplemental readings.)

Another excellent book on law and economics is Law’s Order, by David Friedman (Princeton University Press 2001). I will refer to this book several times in lecture; you can think of it as an optional text for the course. It’s much less comprehensive than the textbook, but covers the intuition of what’s going on very well. (It’s also quite funny in places.) It’s a $24 paperback on Amazon, and
available for free online as an e-book at

Other Sources: Other good books on law and economics include An Introduction to Law and Economics, by Mitchell Polinsky (Aspen 2003), and Game Theory and the Law, by Douglas Baird, Robert Gertner, and Randal Picker (Harvard University Press 1998).

Throughout this course, we’ll be assuming that peoples’ behavior responds to the law. An interesting counterpoint is the view that it is often not the formal law, but informal social norms, which actually govern peoples’ behavior. We won’t get into this, but if you’re interested, check out Order without Law: How Neighbors Settle Disputes, by Robert Ellickson (Harvard University Press 2005); and for an example of such norms in action, see Daniel Nazer (2004), “The Tragicomedy of the Surfers’ Commons,” Deakin Law Review 29 (link).

At the end of the semester, we’ll discuss behavioral economics and its interaction with the law. The paper listed on the syllabus (by Jolls, Sunstein and Thaler) is a good starting point; if you want more, check out Behavioral Law and Economics, edited by Cass Sunstein (Cambridge University Press 2000).

Policy on joint work: I encourage you to work together on homeworks. However, I ask that each person write up his or her own answers separately. That is, you should feel free to discuss the questions and answers and come to a consensus on what you feel the right answers are; but then each person should go back and write up those answers individually, rather than passing around one set of answers for everyone to copy. Also, if you do work with other people, please list who you worked with on the first page of the homework.

Course Overview and Readings
(stars indicate most important readings)

INTRODUCTORY MATERIAL (2 lectures)

Course overview, a bit of history (the Common and Civil Law traditions)
* Cooter and Ulen ch 3

Efficiency, should the law be efficient?, introduction to theory of static games
* Cooter and Ulen ch 1, ch 2
  Varian ch 28.1 – 28.4
ECONOMICS OF PROPERTY LAW (6 lectures)

* Cooter and Ulen ch 4 (theory) and ch 5 (applications)
  Garrett Hardin (1968), “The Tragedy of the Commons,” Science 162 (link)
  Some fun property law-related articles: the amputated leg, squatter’s rights, unbundling

ECONOMICS OF CONTRACT LAW (6 lectures)

* Cooter and Ulen ch 6 (theory) and 7 (applications)
  Hadley v Baxendale decision (link)
  A fun contract-related article: British company buying up souls

ECONOMICS OF TORT LAW (5 lectures)

* Cooter and Ulen ch 8 (theory) and 9 (applications)

THE LEGAL PROCESS AND CRIMINAL LAW (3 lectures)

The Legal Process
* Cooter and Ulen ch 10

Economics of Criminal Law
* Cooter and Ulen ch 11 and 12
Two examples of efficient punishment leading to an incentive for abuse: traffic cameras and more traffic cameras

CONCLUDING MATERIAL (2 lectures)

Some Interesting Digressions
Peter Leeson, “Ordeals” (unpublished) (link)
Tim Wu, “American Lawbreaking,” Slate 10/14/2007 (link)

Efficiency of the Legal System, Revisited

and some boilerplate from the Economics Department:

Grievance Procedure

The Department of Economics has developed a grievance procedure through which you may register comments or complaints about a course, an instructor, or a teaching assistant. Before utilizing the formal steps of this procedure, we ask that you utilize two other means of addressing your comments: our regular course evaluations, anonymous and confidential commentaries solicited at the end of each semester in every Economics class, and also by direct communication with the instructor or teaching assistant involved. The formal grievance procedure is designed for situations where neither of these channels is appropriate and where one or both of these have been tried.

If you wish to file a grievance, you should go to Room 7238 Social Science and request a Course Comment Sheet. When completing the comment sheet, you will need to provide a detailed statement that describes what aspects of the course you find unsatisfactory. You will need to sign the sheet and provide your student identification number, your addresses, and a phone where you can be reached. The Department will investigate comments fully and respond in writing to complaints.

Your name, address, phone number, and student ID number will not be revealed to the instructor or teaching assistant involved and will be treated as confidential. The Department needs this information because it may become necessary for a commenting student to have a meeting with the department chair or a nominee to gather additional information. Your street and e-mail addresses are necessary for providing a written response.
Misconduct Statement

Academic integrity is critical to maintaining fair and knowledge-based learning at UW Madison. Academic dishonesty is a serious violation; it undermines the bonds of trust and honesty between members of our academic community, degrades the value of your degree and defrauds those who may eventually depend upon your knowledge and integrity. Examples of academic misconduct include but are not limited to: cheating on an examination (copying from another student's paper, referring to materials on the exam other than those explicitly permitted, continuing to work on an exam after the time has expired, turning in an exam for re-grading after making changes to the exam), copying the homework of someone else, submitting for credit work done by someone else, stealing examinations or course materials, tampering with the grade records or with another student's work, or knowingly and intentionally assisting another student in any of the above.

The Dept. of Economics will deal with these offenses harshly following UWS14 procedures (http://students.wisc.edu/saja/misconduct/UWS14.html):
1. The penalty for misconduct in most cases will be removal from the course and a failing grade.
2. The department will inform the Dean of Students as required and additional sanctions may be applied.
3. The department will keep an internal record of misconduct incidents. This information will be made available to teaching faculty writing recommendation letters and to admission offices of the School of Business and Engineering.

If you think you see incidents of misconduct, you should tell your instructor about them, in which case they will take appropriate action and protect your identity. You could also choose to contact our administrator (Mary Beth Ellis: mellis@ssc.wisc.edu) and your identity will be kept confidential.