

**Econ 4450 Law and Economics**  
Georgia State University  
Fall Semester 2007

Professor Geoffrey K. Turnbull  
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**Course Description:**

This course provides an introduction to the economic analysis of legal issues in the common law of torts (accidents), contracts, and property. Specific applications are chosen from among the following: property rights and regulation, externalities and environmental control, administrative processes, crime, and contracts and liability (e.g. product liability and medical malpractice).

**Prerequisites:**

Econ 2106 Principles of Microeconomics is a required prerequisite.  
Econ 3910 Intermediate Microeconomics is recommended but not required.

**Required Readings:**

The required textbook is *The Economic Approach to the Law*, by Thomas Miceli (2004). The additional required readings that are indicated by an asterisk are on reserve on the course web site announced in lecture. All other required readings are available through the Georgia State University library.

**Grading:**

Homework problems and review questions will be posted regularly on the course web site. These exercises are not graded, but are assigned to help students prepare for the exams. Answers or check figures for homework problems will be presented in lecture or posted on the course web site.

Course grades are determined by performance on two midterm exams (30% each) and a cumulative final exam (40%). The exams are administered during class time and are scheduled as follows:

Exam 1—Monday, **September 24, 2007**.

Exam 2—Monday, **October 29, 2007**.

Final Exam—Monday, **December 10, 2007** (as scheduled by the University).

There are no make-up exams. The weight of the final exam can be increased to take into account excused missed exams, but only if the student contacts the professor within one working day of the missed exam and provides appropriate documentation of an acceptable excuse (illness, death in the family, etc.) Exam and course grades are based on the University plus/minus system: A, A-, B+, B, B-, C+, C, C-, D, F

**All electronic communication devices are to be turned off and made inaccessible during lectures and exams. Video recording and picture taking are prohibited during lectures and exams. Audio recording of lectures is allowed only with the permission of the professor (and guest lecturer, when appropriate).**

**Academic Honesty:**

Students are expected to adhere to the highest standards of academic honesty at all times. Each student is responsible for knowing and following the Georgia State University Policy on Academic Honesty (Section 409). All exams in the course are closed-book closed-notes exams. It is each student's responsibility to avoid any activity that suggests cheating during exams.

**Learning Objectives:**

Students will be able to

- Identify the Coase theorem.
- Use the Coase theorem to evaluate the effect of law on economic efficiency.
- Explain the economic model of precaution.
- Use the economic model of precaution to evaluate the efficiency effects of alternative liability and negligence rules.
- Identify the elements of a valid contract.
- Explain the economic model of efficient breach.
- Apply the economic model of efficient breach to evaluate the efficiency effects of alternative damages and performance rules.
- Identify the elements of property rights necessary for efficient exchange.
- Evaluate the efficiency effects of alternative remedies for breach of property rights.
- Identify alternative compensation rules under eminent domain.
- Evaluate the efficiency effects of alternative compensation rules under eminent domain.

## **COURSE OUTLINE AND ASSIGNED READINGS**

The course syllabus provides a general plan for the course; deviations may be necessary. Any necessary changes in topics or assigned readings will be announced in lecture.

1. Basic Economic Concepts (*Defining law and economics, economic principles: optimization and economic rationality, competitive markets, monopoly, market efficiency and market failure, Pareto efficiency, Hicks-Kaldor compensation principle, the Coase theorem.*)

Required readings:

Ch. 1: Introductory Concepts

Ch. 1, Appendix: Review of Microeconomics (see topics listed above.)

2. Introduction to the Legal Environment in the U.S. (*Comparing common law and civil law systems; structure of the federal and state court systems in the U.S.*)

Required readings:

Ch. 1: Introductory Concepts

Cooter and Ulen, *Law and Economics*, Ch.2\*

“Exit Napoleon,” *The Economist*, February 11, 2006, p.48\*

3. Accidents and Their Consequences (*Elements of torts; Unilateral liability rules: simple negligence, strict liability, no liability; the Hand Rule; bilateral and sequential liability rules: contributory negligence, comparative negligence, last clear chance; punitive damages; the judgment-proof defendant; manufactured product liability; medical malpractice.*)

Required readings:

Ch. 2: An Economic Model of Tort Law (sec. 1, 2, 3.2, 3.4-3.12)

Ch. 3: Applying the Economic Model of Tort Law (sec. 1, 4).

4. Contracts (*Elements of contracts; reasons for invalidating contracts; reasons to allow breach without penalty.*)

Required readings:

Ch. 4: The Economics of Contract Law I: The Elements of a Valid Contract

5. Contract Breach and Its Consequences (*Efficient breach; unilateral penalty rules: expectation damages, reliance damages, no damages, and specific performance; bilateral penalty: the Hadley-Baxendale Rule*)

Required readings:

Ch. 5: The Economics of Contract Law II: Remedies for Breach

6. Use, Exclusion, and Voluntary Transfer of Real Property (*Fee simple property rights; systems of property rights without formal government; the question of title; property and liability rules in trespass and nuisance; allocations of property rights: deed restrictions, leases, and condominiums and cooperatives; individual and communal property rights*)

Required readings:

Ch. 6: The Economics of Property Law

“No Title,” *The Economist*, March 31, 2005.\*

G. K. Turnbull, “Land Use Covenants and Deed Restrictions,” *Lectures in Law and Economics*.\*

7. Involuntary Transfers of Real Property (*Eminent domain: public use clause, just compensation clause, eminent domain abuse; regulatory taking; time limits on ownership: patents, copyrights, and adverse possession*)

Required readings:

Ch. 7: Involuntary Transfers and Regulation of Property

G. K. Turnbull, “Private Eminent Domain in Georgia: Just Peachy or the Pits?” *Research Notes*, 4, January 2006. [available at [www.aysps.gsu.edu/urbanregional/](http://www.aysps.gsu.edu/urbanregional/)]

G. K. Turnbull, “The Public Use Doctrine in Eminent Domain,” *Lectures in Law and Economics*.\*

Section 4, “Case Study: Regulatory Takings in the U.S.,” in G. K. Turnbull, “Land Use Regulation,” *Lectures in Urban and Real Estate Economics*.\*

8. Criminal Activity (*Crime and torts; economic model of crime; the effects of gun laws in the U.S.*)

Required readings:

Ch. 9: The Economics of Crime (sec. 1, 2.1-2.5, 4.2)

S. D. Levitt and S. J. Dubner, “Why Do Drug Dealers Still Live with Their Moms?” Ch. 3, *Freakonomics*.\*

“The Decline of the English Burglary,” *The Economist*, May 29, 2004, p. 59.\*