Econ 522 Review

December 12, 2011

Contract Law

Damages (C & U 7.1) A buyer (B) pays \$10,000 to a New Orleans grain dealer (D) in exchange for D's promise to deliver grain to B's office in London on October 1st. As a result of signing the contract, B decides not to sign a similar contract with another dealer for \$10,500.
B signs a shipping deal with shipper S, and pays a non-refundable \$100 docking fee to the shipper. B signs a contract to sell the grain to a third party for \$11,000.
En route the grain is damaged, and the dealer backs out of the contract and sells the damaged grain to a cattle rancher for \$500.
B buys the equivalent grain form some other party for \$12,000.

Contract Law

a. What would expectation damages be for D's breach of contract?
b. Reliance damages?
c. Opportunity cost damages?

Tort Law

At a specific restaurant there is a 1% chance of food poisoning that would cause \$1,000 in damage to the victim. There are three potential customers, who have values of \$10, \$15, and \$20 for a meal at this restaurant. Suppose initially there is no liability rule if someone gets sick, and the menu cost of the meal is \$8.

a. What is the efficient activity level (how many people should be eating at this restaurant)?

b. How many people will choose to eat here if they are fully aware of the risk? If they are not aware of the risk?

Tort Law

At a specific restaurant there is a 1% chance of food poisoning that would cause $1,000 in damage to the victim. There are three potential customers, who have values of $10, $15, and $20 for a meal at this restaurant. Suppose the rule is strict liability, and the market is competitive.

a. How many people will choose to eat here if they are fully aware of the risk? If they are not aware of the risk?

Legal Process

Suppose a plaintiff expects to win \$10,000 with probability 5% and \$0 otherwise. The cost of a trial for the plaintiff is \$2000, while the cost of a trial for the defendant is \$6,000.

a. What are the threat points, gains from cooperation, and payoffs if the two sides decide to settle and split the gains (assuming the outside option is to go to trial)?

b. Is the threat of a lawsuit from the plaintiff credible?

Property Law

The government is interested in acquiring land to build a school. The school will be a public good, creating $5,000,000 in total value. The land the government wants to build on is currently privately owned. First, suppose the land is made up of 30 small plots, each one owned by a different owner. Each owner values his own land at $100,000.

a. Would transaction costs be high or low?

b. If the fair market value is $90,000 per plot, would the government's use of eminent domain be efficient?

Property Law

Now suppose the land is occupied by one owner, a real estate developer, who values the land at $10 million.

a. Would transaction costs be high or low?

b. If the fair market value is $2.7 million, would the government's use of eminent domain be efficient?

Property Law

c. Which type of rule, property or liability, is generally more efficient when transaction costs are high, and which is generally more efficient when transaction costs are low?