

NORTHEASTERN UNIVERSITY  
Department of Economics

ECON 7270, Economics of Law and Regulation  
Spring 2011 Course Syllabus

Professor Gregory Wassall

**Class Hours**

☉ Tuesday, 6-9 pm, in 110 Kariotis Hall.

**Office Hours**

My office △: 305 Lake Hall.

My office hours ☉ : Tuesday, 2:00-4:00, and Friday, 1:00-3:00, and by appointment.

Phone ☎: (617-373-2196). E-mail ✉: [g.wassall@neu.edu](mailto:g.wassall@neu.edu).

**Texts Used in This Course**

R. Cooter and T. Ulen, *Law and Economics*, 5th ed. (Pearson Addison-Wesley, 2008).

W. K. Viscusi, et al, *Economics of Regulation and Antitrust*, 4<sup>th</sup> ed. (MIT Press, 2005).

R. Tresch, *Public Sector Economics* (Palgrave-McMillan, 2008).

**Supplemental Text Available on the Internet**

D. Friedman, *Law's Order* (Princeton University Press (2000). Also at [www.davidfriedman.com/laws\\_order/index.shtml](http://www.davidfriedman.com/laws_order/index.shtml) .

**Supplemental Materials on Reserve in Snell Library**

D. Besanko and R. Braeutigam, *Microeconomics*, 3<sup>rd</sup> ed. (2008).

P. Cook, *Paying the Tab* (2007).

E. Grinols, *Gambling in America* (2004).

R. Litan and C. Winston (eds.), *Liability* (1988).

W. Manning, E. Keeler, J. Newhouse, E. Sloss, and J. Wasserman, *The Costs of Poor Health*

**Habits** (1991).

N. Mercuro and S. Medema (eds.), **Economics and the Law** (1997).

E. Posner (ed.), **Chicago Lectures in Law and Economics** (2000).

F. Sloan, et al, **The Price of Smoking** (2005).

C. Wolf, **Markets or Governments**, 2nd ed. (1993).

## Required vs. Suggested Readings

First, note that virtually all required readings are found in one of the texts used in this course. This syllabus also references other relevant readings, typically “suggested”, mostly from the above supplemental books and from additional journal articles. Those articles are primarily taken from the Journal of Economic Perspectives, an economics journal which features state-of-the-art policy studies without a heavy dose of the economic analysis underlying the conclusions. The supplemental books should be found on reserve in Snell Library. Besides filling out one’s knowledge of any topic, the supplemental readings also provide opportunities for additional research in a topical area. I will occasionally post links on our Blackboard web site to relevant readings available on the internet.

Also note that I have “shadowed” most reading assignments in Cooter and Ulen with parallel readings in Freidman’s *Law’s Order*. The Freidman book, though available from Princeton University Press, can also be read on line. It is not as comprehensive as Cooter and Ulen, and less well organized. If you are already familiar with the formalities of the law in the areas we cover, Friedman may be a viable option if you want to buy one less book. No one needs to read the assignments in both texts, unless you really dig this stuff.

## Who Takes This Course?

This course is populated by LPS graduate students and by economics graduate students. This combination presents something of a pedagogical challenge. Economics graduate students expect everything to be explained using mathematics, and my experience indicates that LPS students are generally math-averse. Because of this, the usual mathematical style of presentation found in economics graduate courses is avoided for the most part. Instead, we will primarily use graphs and verbal discussions.

However, we do insist on a common starting point: It is assumed that those enrolling in this course have had the equivalent of at least an undergraduate intermediate level course in microeconomics. This is what is found in the first dozen or so chapters of any Intermediate Microeconomics textbook. To assist anyone who wishes to refresh his/her knowledge, I have placed a copy of one such text, Besanko and Braeutigam, *Microeconomics*, on reserve in Snell Library. Complete coverage in an intermediate microeconomics course would include Chapters 1-5 and 8-13 in Besanko and Braeutigam; if you feel you need a refresher in any of the topics covered in these chapters please do so asap. If you happen to own or have access to another intermediate micro text, it will likely suffice as well. Some topics in these chapters that are particularly relevant to us will be reviewed in class as well. Other material will be developed as we need it.

## Course Description

This course covers a variety of topics in the fields of economics of regulation and of law and economics. Economics of regulation examines the role of government in altering market outcomes. It also examines the motivation of policymakers in creating and administering regulations. It draws from areas such as welfare economics, public economics, and industrial organization. Law and economics examines the economic consequences of laws and legal systems, and their economic efficiency. It also draws heavily on the field of welfare economics. All these fields are branches of microeconomics.

Students who complete this course should have an understanding of (1) the interaction between law and economics (2) how to use economics to judge the efficiency and equity of laws and regulations, and (3) how economics contributes to the creation of policy and to judging policy effectiveness.

## Course Requirements

The course requirements consist of three **take-home exams**, and a **group presentation**.

The **take-home exams** will be roughly five weeks apart from each other to spread your work load evenly over this semester. The exam installments consist of a series of short analytical questions, policy questions or case studies addressing various topics covered in the course. They ask you to discuss the issues raised in each case, and to address specific topics. Combined, the exams count as 80 percent of the course grade. Each installment will be distributed well in advance of their due dates. Their timing is sketched out in the reading list; any departures from that will be announced during the semester.

In the **group presentations**, the class will self-select (with my help, if necessary) into small groups (4-5 students). Each group will choose a course-relevant (but preferably recent and/or controversial) topic, analyze the economic and policy issues surrounding it, and to present its analysis in class. These topics should be roughly coordinated with the applied sections of this course, i.e., the sections beginning roughly with the February 15 class. Each group should also summarize its presentation in a short written version, which can be the power point version of your presentation. The combined presentation and submission count as 20 percent of the course grade. To give you some inspiration in picking topics, I will post a list of past topics chosen by students in this course on Blackboard.

All submissions are expected to be original work, and to meet criteria of academic honesty as outlined in the University Student Handbook. Failure to comply with this requirement on any assignment will result in, at the very least, a failing grade in the course.

Students are asked to submit exams and papers on line. In cases where performance falls between two grades, class participation is the deciding factor. The last installment of the take-home exam is due by April 26, the Tuesday of final exam week.

<b>Course Readings:</b>	
<b><u>Week</u></b>	<b><u>Topic and Readings</u></b>
<b>1/11</b>	<b><u>Economics, Government, Law and Regulation: Introduction</u></b>
<b>Required:</b>	Tresch, Chapters 1-2.
	Cooter and Ulen, Chapters 1-3 provide a brief summary of relevant microeconomics and legal institutions. Similar though not identical topics are covered in Friedman, Chapters, 1-4 and Intermezzo.
<b>Suggested:</b>	Mercuro and Medema, "The Jurisprudential Niche of Law and Economics" (Chapter 1, including the Appendix) provide another review; it includes a lengthy discussion of the concept of economic efficiency.
	C. Sunstein, "Social Norms and Social Roles," in Posner explores some concepts in the social sciences relevant to this course: preferences, choices, norms, and the role of law.
<b>1/18</b>	<b><u>Some Welfare Economics</u></b>
<b>Required:</b>	Tresch, Chapters 3, 4, 5.
	Cooter and Ulen, Chapter 2, Sections IX and X, pp. 39-52, if you haven't already read this. If you haven't gone to law school, also read what constitutes a valid contract in pages 195-208 and 279-309.
<b>Suggested:</b>	Viscusi, et al, Chapter 4, pp. 79-90.
<b>1/25-2/1</b>	<b><u>Efficiency and Market Failure</u></b>
<b>Required:</b>	Tresch, Chapters 6, 7, 8, 12.
	Viscusi, et al, Chapter 4, pp. 79-90.
<b>2/8</b>	<b><u>Public Choice, Regulation, and Government Failure</u></b>
<b>Required:</b>	Tresch, Chapter 10.
	Viscusi, et al, Chapters 1, 2, 10.
<b>Suggested:</b>	Mercuro and Medema, "Public Choice Theory" (Chapter 3) cover the methodological underpinnings of the "government failure" argument.
	J. Ramseyer, "Public Choice," in Posner covers similar ground with some interesting examples thrown in.

<u>Week</u>	<u>Topic and Readings</u>
	Robert W. Hahn and Paul C. Tetlock, "Has Economic Analysis Improved Regulatory Decisions?" 22(1) <i>Journal of Economic Perspectives</i> 67 (2008).
	C. Wolf, "A Theory of Nonmarket Failure," 22 <i>Journal of Law and Economics</i> 107 (1979), or skim his book, which is on reserve.
	<b>First exam about here.</b>
<b>2/15-3/8</b>	<b><u>Regulation of Natural Monopoly and Potentially Competitive Markets</u></b>
<b>Required:</b>	Tresch, Chapter 9.
	Viscusi, et al, Chapters 10, 11, 12, 14, 15, 16, 17, 18.
<b>Suggested:</b>	S. Borenstein, "The Trouble with Electricity Markets: Understanding California's Restructuring Disaster," 16(1) <i>Journal of Economic Perspectives</i> 191 (2002).
<b>2/28</b>	<b>Spring break week - no class.</b>
<b>3/15</b>	<b><u>Cost-Benefit Analysis, Risk, and Valuing Lives</u></b>
	Tresch, Chapter 20.
	Viscusi, et al, Chapters 2, (pp. 30-39), 19, 20.
	<b>Second exam about here.</b>
<b>3/22-3/29</b>	<b><u>Property Law, Externalities and Environmental Regulation</u></b>
<b>Required:</b>	Cooter and Ulen, Chapters 4, 5.
	Friedman, Chapters 5, 10, 11.
	Viscusi, et al, Chapter 21.
<b>Suggested:</b>	G. Brown and J. Shogren, "Economics of the Endangered Species Act," 12(3) <i>Journal of Economic Perspectives</i> 3 (1998).
	R. Coase, "The Problem of Social Cost," 3 <i>Journal of Law and Economics</i> 1 (1960). The article that started it all; it's well worth reading. It's also been reprinted in a number of anthologies.
	G. Metcalf, "Market-based Policy Options to Control U.S. Greenhouse Gas Emissions," 23(2) <i>Journal of Economic Perspectives</i> 5 (2009).
	P. Portney, I. Parry, H. Gruenspecht, and W. Harrington, "The Economics of Fuel Economy Standards," (17:4) <i>Journal of Economic Perspectives</i> 203 (2003).

<u>Week</u>	<u>Topic and Readings</u>
	A. Roth, Repugnance as a Constraint on Markets, (21:3) <i>Journal of Economic Perspectives</i> 37 (2007).
<b>4/5</b>	<b><u>Intellectual Property</u></b>
<b>Required:</b>	Cooten and Ulen, Chapter 5, pp. 119-143.
	Viscusi, et al, Chapter 24.
<b>Suggested:</b>	K. Dam, "Intellectual Property in an Age of Software and Biotechnology," in Posner.
	R. Posner, "Intellectual Property: The Law and Economics Approach," 19(2) <i>Journal of Economic Perspectives</i> 57 (2005).
	R. S. Lee and T. Wu, "Subsidizing Creativity through Network Design: Zero-Pricing and Net Neutrality" 23(3) <i>Journal of Economic Perspectives</i> 61 (2009).
	H. Varian, "Copying and Copyright," 19(2) <i>Journal of Economic Perspectives</i> 121 (2005).
<b>4/12</b>	<b><u>Product and Workplace Health and Safety</u></b>
<b>Required:</b>	Cooter and Ulen, Chapters 8-9.
	Friedman, Chapters 6, 7, 14, 18.
	Viscusi, et al. Chapters 22, 23.
<b>Suggested:</b>	P. Bonney, "Manufacturers' Strict Liability for Handgun Injuries: An Economic Analysis," 73 <i>Georgetown Law Journal</i> 1437 (1985).
	T. Philipson and E. Sun, "Is the Food and Drug Administration Safe and Effective?" 22 (1) <i>Journal of Economic Perspectives</i> 85 (2008).
	Litan and Winston, Chapters 1, 2, 8. Selectively read Chapters 3-7 based on your interest in the subject matter.
<b>4/19</b>	<b><u>Some Regulatory Frontiers</u></b>
<b>Required:</b>	Choose your addiction/social policy. Browse through at least one of Cook, Grinols, Manning, et al, and Sloan, et al.
	D. Cutler, E. Glaeser, and J. Shapiro, "Why Have Americans Become More Obese?" 17(3) <i>Journal of Economic Perspectives</i> 93 (2003).
<b>4/26</b>	<b>Final Exam Week: Last exam is due no later than April 26.</b>