

In 1974, when William Landes joined the University of Chicago School of Law, the field of law and economics was in its infancy. Ronald Coase and Richard Posner were already members of the law school faculty and economics had made some headway in antitrust law and business regulation. However, the core areas of law including torts, contracts, property, civil procedure and criminal law were largely devoid of economic analysis (except for Coase's paper on the theory of social cost and the first-edition of Posner's *Economic Analysis of Law*). Indeed, legal academics were generally hostile to the possibility that economics might be useful in understanding and illuminating these central areas of law. Most law school professors viewed law and economics as the latest fad in legal scholarship that would not survive the test of time. How wrong these forecasts were. By the 1990s, law and economics was widely recognized as the single most influential school of legal thought in the 20th century.<sup>1</sup> Today, economic analysis of the law has become a critical tool both in academic law and in the practice of law. On the academic side, there are at least six professional journals in law and economics (edited by professors); law reviews and economic journals regularly publish articles in law and economics; the American Law and Economics Association (founded in 1991) has close to 1500 members and holds annual meetings; and parallel associations exist in numerous other countries. On the practical side (or law and economics "in action") there are now a large number of consulting firms that employ economists with advanced degrees who provide economic consulting in the context of litigation and regulatory proceedings. It is not an exaggeration to note that in large stakes commercial litigation, it would border on legal malpractice not to use economists as consultants and expert witnesses.

This book grew out of Landes' extensive lecture notes for his introductory economic analysis of law class that he taught at Chicago for over 25 years. These notes would have stayed buried but for the efforts of Shahar Dillbary who took Landes' class during his time at Chicago and has been teaching law and economics for over a decade at the University of Alabama School of Law. Dillbary significantly expanded Landes' lecture notes; converted them into book form; added new analytical material and cases that illustrate the relevant economic principles; and finally

1. William M. Landes & Richard A. Posner, *The Influence of Economics on Law: A Quantitative Study*, 36 J.L. & ECON. 385 (1993).

developed problems sets that test the reader's understanding of the economic approach. Our goal was to create a book that would truly marry law and economics, and would be comprehensive yet accessible to all. The book is self-contained in the sense that we assume no prior knowledge of economics and require no mathematical background (except basic arithmetic). We explain central economic concepts such as equilibrium in markets (both legal and illegal), competition versus monopoly, risk preferences, the role of insurance, game theory, decision theory and the Coase theorem, and use simple arithmetical examples to illustrate these concepts. Throughout the book we connect economics to specific court decisions and real life examples. The court decisions often have an underlying economic rationale even though the judges do not speak explicitly in the language of economics.

The basic assumption in economics is that individuals behave (or act as if they behave) rationally. In non-technical terms, rational behavior means that individuals try to do the best they can (i.e., they rank their preferences and try to reach their highest preference level) subject to constraints on their time, income, other resources, education, information and available technology. The individual's preference function does not depend solely on his own consumption but can also include the consumption and welfare of his children, other family members, friends, his reputation, standing in the community, and so on. Rational behavior provides a useful account of how individuals behave in most circumstances and yields predictions that can be tested against observed behavior. The rational behavior assumption is not without criticism. Critics point to behavior that appears inconsistent with rational behavior. Much of this criticism falls under the category "behavioral economics" or "behavioral law and economics." We address these criticisms throughout the book.

The goal of this book is to show that economics is not just a set of abstract principles, but provides one with a set of tools that can illuminate much of law. Still, as Judge Posner noted, "you cannot learn economics from any one book—not this book, not any other." Our book does not cover all areas of the law in the same manner. Certain areas (e.g., property) cover a chapter; other areas (e.g., contracts and criminal law) are discussed throughout the book but not in a single chapter; and finally some areas (e.g., antitrust) are discussed infrequently. We hope that the book's unique structure and scope contributes to one's understanding of economic analysis as a tool for explaining the economic rationale of many legal rules and doctrines.

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