Contents

Pre	eface	xix
Pre	eface to the Second Edition	xx
Aci	knowledgments	xxii
CH	JAPTER 1	
Ec	conomic Concepts and Institutions	1
A.	What Economists Study	ĺ
B.	Incentives Matter	ĺ
C.	Resource Scarcity	2
D.	Cost and Price	4
E.	Economic Decisions Are Made at the Margins	Ę
F.	Allocating Entitlements to Resources	6
G.	Supply, Demand, and the Market	6
	1. The Law of Demand	6
	2. The Law of Supply	S
	3. The Market: Where Buyers and Sellers Meet	10
	4. Market Equilibrium: Where Supply Meets Demand	11
H.	Efficiency	12
	1. Productive, Allocative, and Adaptive Efficiency	13
	2. Measuring Allocative Efficiency: The Pareto	
	and Kaldor-Hicks Criteria	13
	3. Cost-Benefit Analysis	16
I.	Market Failure	16
	1. Neoclassical Assumptions versus the Real World	16
	2. Imperfect Competition	17
	3. Imperfect or Asymmetric Information	18
	4. Externalities	18
	5 Public Goods	20

	6. Transaction Costs7. Strategic Behavior: Free-Riders and Holdouts	21
	(and an Introduction to Game Theory)	21
J.	Responses to Market Failure: Firms and Governments	
	(and Their Failures)	27
	1. Firms	27
	2. Government Intervention to Correct Market and Firm Failures	27
	3. Government Failure	28
K.	The Second-Best (<i>Real</i> Coasean) World	28
	Chapter Summary	29
IVI.	Questions and Problems	29
۵.		
٠.	HAPTER 2	
A	n Introduction to the American Legal System	31
A.	Why Law?	31
	1. Scarcity Again	31
	2. The Purposes of Law	32
B.	Legal Institutions: "The Rules of the Game"	32
	1. Legal Rules	32
	2. The Rule of Law	33
	3. Criminal and Civil Law	34
	4. Rights and Duties	35
	5. Liability and Remedy	35
C.	Sources and Areas of Law	36
	1. Constitutional Law	36
	2. The Common Law and Its Courts	37
	3. Statutory Law	38
	4. Administrative Law	40
	5. A Note on Local Custom: How Neighbors Settle Disputes	40
D.	The Organization of American Legal Decision Making	41
	1. The State Court Systems	41
	2. The Federal Courts of the United States	46
	3. State and Federal Legislative and Regulatory Bodies and Processes	49
F		52
	Chapter Summary Ouestions and Problems	
Η.	Uniestions and Problems	52

Contents	xi

CH	IAPTER 3	
Pι	utting Law and Economics Together:	
	ameworks, History, & Perspectives	53
A.	Economic and Legal Frameworks	53
	1. What Economic Analysis Has to Offer Legislators,	
	Judges, and Legal Scholars	54
	2. Limitations of the Economic Approach to Law	61
	3. The Legal Structure of Economic Activity	63
B.	An Outline History of Law and Economics	67
	1. Progressive Era Law and Economics	67
	2. The Coasean Revolution	68
	3. Modern Law and Economics	70
C.	Perspectives on Law and Economics	71
	1. The Chicago School—Neoclassical Law and Economics	72
	2. Public Choice	73
	3. Institutional Law and Economics	75
	4. New Institutional Economics	78
	5. Behavioral Law and Economics	81
D.	Chapter Summary	84
E.	Questions and Problems	85
CH	IAPTER 4	
"T	The Problem of Social Cost" and Modern Law	
ar	nd Economics	87
A.	The Nature of Social-Cost Problems: Coase v. Pigou	87
B.	The "Coase Theorem"	90
	1. No Problems of Social Cost Would Arise in a World of Perfect Competition, Complete Information, and Costless Transacting (<i>i.e.</i> , the World of Neoclassical Economic Theory)	90
	2. Critiques of the Coase Theorem	95
C	-	
	Transaction Costs and Law in the Real World	96
D.	The Courts and the "Delimitation" of Entitlements	102
E.	"The Problem of Social Cost" and Modern Law and Economics	103
F.	Chapter Summary	106
G.	Questions and Problems	106

CHAPTER 5

Pr	operty I: Acquisition	109
A.	What Is Property?	109
	1. Rights and Duties Respecting Things	109
	2. Not One Right, But a "Bundle of Rights"	109
	3. What Makes a Right "Property"?	110
	4. "Ownership" and Relativity of Title	110
В.	Types of Property Regimes	113
	1. Res Privatae	114
	2. Res Publicae	114
	3. Res Communes	114
	4. Res Nullius	114
	5. Mixed-Property Regimes	115
	6. Property Regime Choice	115
C.	Economic Functions of Property	116
	1. Economic Exchange, Development, and Growth	116
	2. Resource Conservation	118
	3. Anticompetitive Effects of Monopoly Property Rights:	
	Incentives to Innovate vs. Market Competition in Intellectual	124
_	Property Law	
D.	Sources of Property 1. Rettern Lie Theories of Bronzenter Bronzelitical on Natural	128
	1. Bottom-Up Theories of Property: Prepolitical or Natural Property Rights	128
	2. Top-Down: Political Definition and Allocation of Property	130
E.	Allocating Property Rights	131
	1. Allocation Mechanisms	131
	2. Allocation "Institutions"	134
F.	Chapter Summary	137
G.	Questions and Problems	137
CH	IAPTER 6	
	operty II: Protection	139
	Determining Liability	140
	Strict Liability—Trespass and Nuisance Distinguished	140
	2. Modern Nuisance Law	141
В.	The Remedy Decision	144
	1. Types of Remedies	145

		Contents	xiii
	2 December Delea Initiative Delias	151	
	2. Property Rules—Injunctive Relief3. Liability Rules—Money Damages	151 153	
	4. Hybrid Property/Liability Rules	156	
	5. Inalienability Rules	161	
C	Chapter Summary	164	
	•	164	
υ.	Questions and Problems	104	
Cŀ	HAPTER 7		
Pı	operty III: Limits	165	
A.	Private Law Limitations	165	
	1. Nuisance Law as a Limitation on Property	165	
	2. Private Land-Use Planning—Covenants	169	
В.	Public-Law Limitations on Private Property	171	
	1. Police-Power Regulation	172	
C.	Constitutional Limitations on Public Regulation of Private	102	
	Property: Regulatory Takings Law 1. Justifications for Regulatory Takings Law in the Law	183	
	and Economics Literature	190	
D.	Chapter Summary	195	
E.	Questions and Problems	195	
CL	IAPTER 8		
	ontracts I: Formation and Enforcement	197	
	The Basics of Contract Law	197	
. 1.	1. The Nature of a Contract	197	
	2. Caveat: Not All Promises Constitute Contracts	199	
	3. Enforcement	201	
	4. Should Contracts Always Be Enforced?	204	
B.	Contract Failure	205	
	1. Two Economic Views of Contract Failure and the Role of Courts	206	
C	Reasons for Contract Breach	212	
٠.	1. Formation Defenses	212	
	2. Performance Excuses	222	
D.	Chapter Summary	226	
	Questions and Problems	226	

CHAPTER 9

C	ontracts II: Remedies	229
A.	Types of Remedy for Contract Breach	229
	1. Specific Performance	229
	2. Money Damages	234
B.	The Notion of Efficient Breach	234
C.	The Costs of Reliance and Precaution	244
	1. Efficient Reliance	244
	2. Efficient Precaution	245
D.	Alternative Approaches to Calculating Damages	246
	1. Expectation Damages	246
	2. Reliance Damages	249
	3. Restitution	253
	4. Liquidated Damages/Penalty Clauses	255
E.	Chapter Summary	256
F.	Questions and Problems	257
	IAPTER 10	
To	orts I: Negligence	259
A.	Prologue: Accidents Happen	259
B.	What Is a Tort?	260
	1. Civil Wrongs	260
	2. The Common Law of Torts	260
	3. Types of Torts	263
	4. An Economic Approach to Torts	265
C.	Legal and Economic Functions of Tort Law	269
	1. Corrective Justice	269
	2. Deterrence Through Internalization of Externalities	270
	3. Punishment	270
	4. Maximizing Social Welfare by Minimizing the Total Costs of Torts	272
D.	The Law and Economics of Negligence	273
	1. Simple Negligence: Creating Incentives for Reasonable (<i>i.e.</i> , Efficient) Behavior by Tort Defendants	273
	2. Influencing Plaintiffs' Incentives: Defenses to Negligence	276
E.	The Role of Insurance in Negligence Law	283
F.	Chapter Summary	286
G.	Questions and Problems	286

Contents	χV
Contents	ΧV

CHAPTE	R 11
---------------	------

To	orts II: Strict Liability	287
A.	An Alternative to Negligence	287
	1. The Elements of Strict Liability	288
	2. Why Strict Liability?	289
	3. Defenses to Strict Liability	295
B.	Strict Liability v. Negligence	298
	1. Historical Context of the Debate	298
	2. The Comparative Ethics of Negligence and Strict Liability	300
	3. Comparative Institutional Analysis	300
C.	The Costs of Administering the Torts System	304
	1. Choosing the Legal Rule	304
	2. The Costs of Estimating Damages	305
	3. The Costs of Evaluating <i>Ex Ante</i> Precautions	• • •
	and Potential Precautions	306
D.	Chapter Summary	307
E.	Questions and Problems	307
CH	IAPTER 12	
To	orts III: Reform	309
A.	The Case for Tort Reform	309
	1. The Current Tort System Produces Net Social Costs	309
	2. Tort Reform Recommendations	312
B.	The Case Against Tort Reform	313
	1. Fact, Fiction, and the Tort System	313
	2. Are Tort Reform Cures Worse Than the Disease?	319
C.	Experiences in Tort Reform	322
	1. Caps on Punitive Damages	322
	2. Limitations on Joint and Several Liability	327
	3. Ceilings on Malpractice Liability	327
	4. Collateral Source Rules	327
	5. Federal Tort Reforms	328
D.	Economic Consequences of Tort Reform	328
E.	The "No Fault" Alternative	331
	1. Workers' Compensation and "No Fault" Auto Insurance in the United States	331
	2. Comprehensive "No Fault" Insurance in New Zealand	333

F.	Chapter Summary	338
G.	Questions and Problems	338
CH	HAPTER 13	
C	rime and Punishment	339
A.	Criminal Wrongs	339
	1. Crime and Criminal Law	339
	2. Criminal Procedure	340
	3. Society Criminalizes Certain Wrongful Acts, but Not Others	340
B.	The Economics of Crime	343
	1. Crime and Its Economic Consequences in the United States	343
	2. Why People Commit Crimes	344
C.	The Economics of Crime Prevention, Criminal Prosecution, and Punishment	345
	Data on Law Enforcement, Arrests, Convictions,	010
	and Punishments	345
	2. Selecting the Levels of Crime Prevention and Law Enforcement	346
	3. The Economics of Criminal Punishment	347
D.	Selected Issues in Crime and Punishment	348
	1. The "War on Drugs"	348
	2. The Death Penalty	351
	3. Gun Control	356
E.	Chapter Summary	358
F.	Questions and Problems	359
CH	HAPTER 14	
	ntitrust and Regulated Industries	361
A.	Introduction	361
B.	The Problem of Monopoly	362
C.	Antitrust Law	365
	1. The Sherman Act	365
	2. Expansion of Antitrust Law	370
	3. The Microsoft Case	373
D.	Regulated Industries	378
	1. The Theory of Natural Monopoly	379
	2. The Deregulation Movement	382
	3. California's Power Crisis	384

		Contents	xvii
E.	Chapter Summary	386	
F.	Questions and Problems	386	
CH	IAPTER 15		
Er	vironmental Protection	389	
A.	What Is Pollution?	389	
В.	Pollution as an Economic Problem	390	
	1. Pollution as a Negative Externality	390	
	2. Environmental Amenities as Public Goods	392	
	3. Transaction Costs and Pollution	393	
C.	Pollution and the Common Law	395	
	1. Environmental Nuisances	395	
	2. The Limits of Common-Law Remedies for Pollution Problems	397	
D.	The Costs and Benefits of Environmental Regulation	400	
E.	Environmental Instrument Choice	412	
	1. Types of Regulatory Approaches	412	
	2. Compliance-Cost Advantages of "Economic Instruments"	415	
	3. Monitoring and Enforcement Costs of Environmental Regulation	418	
F.	Chapter Summary	423	
G.	Questions and Problems	423	
Inc	lex	427	