1. (15 pts.) Principal A is considering putting a valuable asset (value = 1) in the hands of Agent B. B then can cooperate with A, maintain the value of the asset, and take actions that create additional value (= 1), with the proceeds to be split evenly between A and B. Alternatively, B can appropriate A's asset and abscond with its value. A and B discuss a possible deal. B promises A that he will cooperate and not appropriate A's valuable asset.
    a) What is A likely to do? Explain why by drawing a game tree that illustrates A's initial options, B's subsequent options, and the possible outcomes and payoffs of this sequential-move game.
    b) Suppose B has the option of posting bond with a reliable third party. The deal is that B would post a bond of 2 with the bonding agency, which would be given to A if B decides to appropriate but would be returned to B if B decides to cooperate. Now what is A likely to do? Explain why by drawing another game tree similar to the one you drew in (a).

2. (10 pts.) A, B, and their classmates live on a deserted island. They recently implemented a legal system with clearly defined and enforced property rights. It has promoted considerable exchange among individuals. Some of the exchanges have an element of time attached to them, leading to posting of bonds and exchanges of hostages and other cumbersome enforcement mechanisms. With your background in law and economics, your fellow citizens turn to you for guidance. Can you think of another area of law that if implemented might lead to Pareto improvements in your island society? Explain to your fellow citizens how contract law might promote efficiency. Use the example in question #1 for illustration if it would be helpful.

3. (10 pts.) Is there any difference between these two threats: (a) "if you don't sell me that car for $5000, I'm going to break the windows in your house, and (b) "if you don't sell me that car for $5000, I'm going to march down the street and buy a car from a competing used car dealer"? If a contract is formed for an exchange in each case, would they be equally enforceable at law? Explain. Bring the case of Post v. Jones (1856) into your answer.

4. (10 pts.) Explain the difference between unilateral mistake and mutual mistake. Why might it be efficient for courts to enforce contracts formed when one is present but not enforce contracts formed when the other is present? Bring the case of Sherwood v. Walker (1887) into your answer.

5. (10 pts.) Pick **one** of the following cases and explain the facts of the case and what sort of contract law defense was offered in the case: (a) Watanabe v. Harrah's, (b) Taylor v. Caldwell, (c) Obde v. Schlemeyer, or (d) Williams v. Walker-Thomas Furniture Co.

6. (10 pts.) Use the case of Escola v. Coca Cola Bottling Co. (1944) to explain the three elements of a tort that are necessary for a judgment to be made in favor of the plaintiff.

7. (20 pts.) You own a chicken processing plant. Your company takes live chickens and converts them into boneless chicken breasts, boneless chicken strips, boneless chicken nuggets, and chicken byproducts that end up in things like cat food. The more care that you and your employees take in deboning the chickens, the fewer people who choke to death when eating your company's products. The more care that you and your employees take in keeping the plant clean and sanitary, the fewer people who contract food poisoning from eating your

company's products. (Cats, on the other hand, really aren't affected by the level of precaution you take.)

    a) How much care/what level of precaution is efficient for your company to take? In explaining your answer, use a diagram with $ costs of precaution and accidents on the vertical axis and the level of precaution taken on the horizontal axis. Explain in words, with algebra, and with your graph.

    b) Will an efficient outcome occur if the legal regime is no liability for manufacturers, i.e. a strict caveat emptor rule? Explain.

    c) Will an efficient outcome occur if the legal regime is strict liability for manufacturers, i.e. caveat vendor? Explain.

8. (15 pts.) Hawkins v. McGee (1929) is the infamous hairy hand case. It was brought as a breach of contract case, but just as easily could have been filed as a tort case. Two concepts of damages applicable to contract cases, expectation damages and reliance damages, can be illustrated using the facts of this case. The standard concept of damages applicable to tort cases, compensatory damages, can also be illustrated using the facts of this case. Use the following diagram and indifference curves to illustrate these damage concepts. The starting point for your analysis is the fact that Hawkins' hand had been scarred from contact with an electrical wire, and his initial level of wealth was W_0.

ECO 499: Seminar in Law and Economics
FINAL EXAM
Spring 2009

Name: _____

4 digit # for posting grade: _____

10 point questions:

1. Under the Classical or Bargain Theory of Contracts, what are the three elements of a bargain (and hence legally enforceable promise or contract)?

2. In **Batsakis v. Demotsis 226 SW2d 673 (1949),** involving the loan of money from Batsakis to Demotsis prior to the German invasion of Greece in 1941, the Court of Civil Appeals of Texas ruled that "mere inadequacy of consideration will not void a contract." What is "consideration" and what ramifications does this ruling have for the smooth functioning of a market system of exchange?

3. Use indifference curves to explain the difference between expectation damages and reliance damages in the case of **Hawkins v. McGee, 84 N.H. 114, 146 A. 641 (N.H., 1929),** (the case where the plastic surgeon promised to repair a boy's scarred hand).

4. In the classical theory of tort law, what are the three elements of a tort that are essential for the decision to go to the plaintiff?

20 point questions:

5. Omega Corporation offers to sell a crane which it values at $10,000. The Alpha Company intends to bid $12,000 for the crane, but due to a typographical error, the bid is transmitted at $15,000. The Beta Company bids $13,000. There are no other bidders. Omega turns down the bid from Beta and accepts Alpha's bid. Subsequently, the mistake is discovered by Alpha, who offers to proceed only at the lower price of $12,000. Omega sues for the full $15,000. Beta is still prepared to pay $13,000 for the crane. The options before the court are: (i) declare that there was no contract due to mutual mistake; (ii) declare that a valid contract was breached and award damages; or (iii) enforce the contract according to its terms.
    a) Suppose the court chooses option (i). How will the surplus be shared and who will end up owning the crane?
    b) Suppose the court chooses option (ii). What should damages be? How will the surplus be shared and who will end up owning the crane?
    c) Suppose the court chooses option (iii). How will the surplus be shared and who will end up owning the crane?

6. The following is a list of possible defenses and excuses a defendant might use in a breach of contract case: (a) incompetence, (b) duress, (c) necessity, (d) impossibility, (e) frustration of purpose, (f) mutual mistake, (g) duty to disclose, and (h) fraud. Pick any five, explain what each defense or excuse means, and then give an example of it.

7. If soft drinks are manufactured in glass bottles, the production cost per unit is 40 cents, the chance of an accident is 1/100,000, and the loss if an accident occurs is $10,000. If soft drinks are manufactured in metal cans, the production cost per unit is 43 cents, the accident probability is 1/200,000, and the loss if an accident occurs is $4,000. Precaution by the consumer has no impact on either the probability or the severity of an accident.

a) What is the expected loss per unit from accidents if bottles are used? if cans are used? From society's point of view, would it be more efficient for soft drinks to be packaged in glass bottles or metal cans?
b) Suppose consumers do not comprehend the risks of drinking soda out of either bottles or cans. Suppose also that manufacturers bear no liability for an accident. What type of container will be used and will the outcome be efficient?
c) Now suppose that courts adopt a rule of strict liability in cases like this. What type of container will be used and will the outcome be efficient?

ECO 499
Final Exam
Fall 2000

Answer any combination of questions that sums to 100 possible points.

1. (5 pts.) In contract law, what is consideration?

2. (10 pts.) RE the case of Shane Moran v. Williston Cooperative Credit Union (1988) before the Supreme Court of North Dakota, involving a father and son and a bull. Briefly describe the legal issue in the case and what the court decided.

3. (10 pts.) The case of Stambovsky v. Ackney (1991) before the Supreme Court of New Jersey involved the sale of a house and the issue of duty to disclose. Briefly describe what the case was about and what the court decided.

4. (10 pts.) In our class discussion of the topic of unconscionability we covered two different cases involving the Campbell Soup Company. Briefly describe what was supposedly unconscionable about Campbell Soup's behavior. What vegetable was involved in each case?

5. (10 pts.) The case of Wissman v. Wissman (1978, Missouri Court of Appeals) involved a father and son and the issue of negligence. Briefly describe the details of the case.

6. (15 pts.) Name each of your fellow classmates and tell me the topic of their formal oral presentation (not their paper presentation).

7. (15 pts.) Explain the difference between unilateral mistake and mutual mistake. In which case are courts more likely to be willing to void a contract? Why?

8. (20 pts.) Danny Ainge is a major league prospect in baseball. He is also a talented basketball player. He signs a long-term contract with the Toronto BlueJays, a professional baseball club. It turns out that he is an excellent fielder, but can't hit major league pitching. His annual value as a baseball player thus is measured in the hundreds of thousands of dollars. The Boston Celtics, a professional basketball organization, want to employ Mr. Ainge as a basketball player. They estimate that his annual value as a basketball player is measured in the millions of dollars, and offer him an employment contract for that amount. Mr. Ainge wants to breech his contract and terminate his employment as a baseball player, and to work as a basketball player instead.
   a) Is this an example of an efficient breech? In your answer you should explain what is meant by the term "efficient breech."
   b) Suppose the BlueJays sue to block Mr. Ainge from breeching his contract, and that the court decides that the contract is indeed valid and should be enforced. Is this decision likely to result in an inefficient allocation of resources, similar to when Michael Jordan was playing minor league baseball?

9. (20 pts.) Use Judge Learned Hand's rule to explain how lawmakers can identify the efficient level of precaution when setting the legal standard for what constitutes negligence and what constitutes reasonable precaution. You can choose your own example to use in explaining your answer, e.g., driving an automobile, owning and operating a barge in a busy harbor, owning and operating a chicken processing plant. If you want to draw a diagram that illustrates Dean Guido Calabresi's rule about minimizing the social costs of accidents, it may facilitate your explanation.

ECO 400
Final Exam
Spring 1995

5 questions, 20 points each.

1. In **Sherwood v. Walker 66 Mich. 568 (1887)** a controversy arose over the sale of a cow, one "Rose 2d of Aberlone." Walker breached a contract to sell Rose to Sherwood.
(a) What was Walker's defense, and was it successful?
(b) Suppose that Sherwood only wanted a big piece of meat to cut into steaks, while Walker was interested in fertile cows for breeding purposes. Suppose also that the court decided the contract should be strictly enforced and Sherwood should get the cow at the agreed-upon price. Would such a ruling result in an inefficient allocation of resources, i.e., would Rose be turned into steaks and hamburger?

2. Use indifference curves to explain the difference between expectation damages and reliance damages in the case of **Hawkins v. McGee, 84 N.H. 114, 146 A. 641 (N.H., 1929)**, (the case where the plastic surgeon promised to repair a boy's scarred hand).

3. If soft drinks are manufactured in glass bottles, the production cost per unit is 40 cents, the chance of an accident is 1/100,000, and the loss if an accident occurs is $10,000. If soft drinks are manufactured in metal cans, the production cost per unit is 43 cents, the accident probability is 1/200,000, and the loss if an accident occurs is $4,000.
(a) What is the expected loss per unit from accidents if bottles are used? if cans are used? From society's point of view, would it be more efficient for soft drinks to be packaged in glass bottles or metal cans?
(b) Suppose consumers do not comprehend the risks of drinking soda out of either bottles or cans. Suppose also that manufacturers bear no liability for an accident. What type of container will be used and will the outcome be efficient?
(c) Now suppose that courts adopt a rule of strict liability in cases like this. What type of container will be used and will the outcome be efficient?

4. What is unconscionability? What is commercial impracticabality? Give an example of and explain how each of these defenses was used in a breach of contract case that we studied.

5. Motor vehicles have drastically changed the way that people live their lives. Travel costs have declined tremendously. At the same time, however, thousands of people die each year on American highways in motor vehicle accidents, and tens of thousands are injured. Greater precaution by motor vehicle operators reduces the likelihood and the severity of accidents. Using economic logic, describe the conditions for the efficient level of precaution by drivers, i.e., what is the optimal level of safety? In explaining your answer, you should use a diagram with precaution on the horizontal axis and $ on the vertical axis. You should also remember Dean Calabresi's rule in formulating your answer.

ECO 400: Law and Economics
FINAL EXAM
FALL 1993

1.   (10 pts.) Under the Classical or Bargain Theory of Contracts, what are
      the three elements of a bargain (and hence a legally enforceable promise
      or contract)?

2.   (15 pts.) In **Batsakis v. Demotsis 226 SW2d 673 (1949)** the Court of Civil
      Appeals of Texas ruled that "mere inadequacy of consideration will not
      void a contract." What is "consideration" and what ramifications does
      this ruling have for the smooth functioning of a market system of
      exchange?

3.   (20 pts.) Many economic exchanges are not instantaneous but involve an
      element of time. Promises are typically exchanged. Economic theory
      suggests that such promises should be strictly enforced under certain
      conditions. Discuss the conditions under which contracts should be
      strictly enforced.

4.   (10 pts.) What is the difference between a formation defense and a
      performance defense?

5.   (10 pts.) In the classical theory of tort law, what are the three
      elements of a tort that are essential for the decision to go to the
      plaintiff?

6.   (20 pts.) You own a business that butchers chickens and sells the meat to
      the public. The more care (precaution) that you take in the production
      process, the lower the likelihood that one of your customers contracts
      food poisoning from eating contaminated chicken. From society's point of
      view, what would be the efficient amount of precaution for you to take?
      Remember Dean Calabresi's rule: the rules of tort liability should be
      structured so as to minimize the sum of precaution and accident costs. It
      would be useful if you incorporate a diagram in your answer that has
      dollar costs on the vertical axis and the level of your precautionary
      efforts on the horizontal axis.

7.   (15 pts.) In **Sherwood v. Walker 66 Mich. 568 (1887)** a controversy arose
      over the sale of a cow, one "Rose 2d of Aberlone." Walker breached a
      contract to sell Rose to Sherwood. (a) What was Walker's defense, and was
      it successful? (b) Suppose that Sherwood only wanted a big piece of meat
      to cut into steaks, while Walker was interested in fertile cows for
      breeding purposes. Suppose also that the court decided the contract
      should be strictly enforced and Sherwood should get the cow at the agreed-
      upon price. Would such a ruling result in an inefficient allocation of
      resources, i.e., would Rose be turned into steaks and hamburger?

8.   (Bonus: 8 pts maximum) List the paper topic of each member of the class.

ECO 400
FINAL EXAM
SPRING 1993

1. (20 pts.) If soda is manufactured in bottles, the production cost per unit is 40 cents, the chance of an accident is 1/100,000, and the loss if an accident occurs is $10,000. If soda is manufactured in cans, the production cost per unit is 43 cents, the accident probability is 1/200,000, and the loss if an accident occurs is $4,000.

a. What is the expected loss per unit from accidents if bottles are used? if cans are used? What is the efficient solution?

b. Suppose consumers do not comprehend the risks of drinking soda out of either bottles or cans. Suppose also that manufacturers bear no liability for an accident. Will the outcome be efficient?

c. Now suppose consumers fully understand accident costs, and manufacturers still bear no liability. Will the outcome be efficient?

d. Now suppose that courts adopt a rule of strict liability in cases like this. Does it matter whether consumers fully understand accident costs in determining the efficiency of the outcome?

2. (25 pts.) Discuss briefly each of the different types of formation defenses and the different types of performance defenses we have studied in breach of contract cases.

3. (10 pts.) Give an example of an efficient breach of contract.

4. (15 pts.) Use indifference curves to explain the difference between expectation damages and reliance damages in the case of Hawkins v. McGee (the case where the plastic surgeon promised to repair a boy's scarred hand).

5. (15 pts.) The case of Batsakis v. Demotsis involved the breach of a contract. The Court of Civil Appeals of Texas held that "mere inadequacy of consideration will not void a contract." What is "consideration" and why is it important for the smooth functioning of a market system of exchange for courts not to evaluate ex post the adequacy of consideration?

6. (15 pts.) In the classical theory of tort law, what are the three elements of a tort that are essential for the decision to go to the plaintiff?

10 point bonus: Briefly discuss the in-class presentation of one of your classmates. Include who it was and what their topic was about.