

ECO 499  
Final Exam  
Fall 2015

Name: \_\_\_\_\_

100 points total. Answer each question in the space provided, using the back of the sheet if necessary.

1. (10 pts.) Perfect competition, perfect contracts, Pareto optimality. Construct an argument for strict enforcement of contracts under these conditions. Then give an example of a case where one of these conditions was not met and the contract was either invalidated or not enforced.

2. (20 pts.) (a) In 2003 British Petroleum invested almost \$8 billion in Russian oil projects in partnership with Russian company AAR. The partnership fell apart and BP ended up losing billions. Explain why this occurred by drawing a game tree where BP moves first and decides whether to put a valuable asset in the hands of AAR, and then AAR decides whether to appropriate or cooperate. (b) Exxon-Mobil signed agreements in 2011 with Russian company Rosneft to also invest multiple billions of dollars in Siberian oil projects. Exxon-Mobil's partnership seems to be working out much better than BP's. What did Exxon-Mobil do differently from BP? Explain why by drawing another game tree that illustrates how Exxon-Mobil structured their agreement.

3. (20 pts.) Impossibility, commercial impracticability, and frustration of purpose are all reasons why a court might excuse non-performance of a contractual promise. Explain what each of these means, and then discuss a legal case that illustrates the principle.

4. (10 pts.) The case of *U.S. et al. v. Carroll Towing Co. (1947)* was heard by judges Hand, Chase, and Frank. What were the facts of this case and what important legal principle regarding the efficient level of precaution in tort cases came out of their decision?

5. (20 pts.) As the population on our island has grown, we have noticed that accidents on our roadways are starting to happen with alarming frequency. Carriage drivers are running into pedestrians. Wagon drivers are running over other people's livestock. Horseback riders are colliding with each other at intersections. Disputes over these accidents have even led to violent arguments and fights. At a tribal council meeting, everyone agrees that the goal of society should be to minimize the expected social costs of roadway accidents. The question is, what speed limit for horses, wagons, and carriages should we set? In other words, what is the optimal level of precaution that we should expect of each other? Use words, an algebraic expression, and a graph to explain how we should determine the optimal level of precaution, i.e. speed limit.

6. (20 pts.) The products liability area of torts law in the U.S. evolved from a negligence standard to a strict liability standard over the first half of the twentieth century. Two representative cases are *MacPherson v. Buick Motor Co. (1916)* and *Escola v. Coca-Cola Bottling Co. (1944)*. Explain the facts of each case, the reasoning used by the court in deciding each case, and how each case changed the existing precedent. Under what conditions does a strict liability standard lead to Pareto optimality?