Econ 522 Review Session Topics: * Efficiency (What is it? How do we evaluate whether private agents achieve efficiency?) * Bargaining (How are payoffs established? How to figure out bargaining outcome?) * Property law - Normative Coase us. Normative Hobbes - Efficient remedies * Contract law - Bargain theory (When to apply it? How to check?) - Damages (ED. OD. RD) - Efficient breach / Heliance / investment in performance - Unite knowledge and control * Tort law - The Hand rule (What is it trying to measure?) - Accidents between seller & its customer * Criminal law - Social costs - Marginal cost of deterrence * Others - Hindsight trias - Self-serving bias

F.P. icipmon
Efficiency ① What is the efficient outcome?
e vineri is the eliteration of the entire t
DA TCC Inliana
<u>W.</u> Eff Heliance
② What do private agents actually do?

From Sample Exam Questions Ann's uncle dies and leaves her a beautiful 1959 Corvette in flawless condition. Having no interest in old cars, Ann agrees to sell it to Betty for \$25,000, a fair price given the condition it's in. Not wanting such a beautiful car to get snowed on, Betty pays \$1,000 to rent an indoor parking space close to her home. This reliance is both efficient and foresceable, and the \$1,000 is not refundable. From having the car and the parking space, Betty expects to get a benefit of \$40,000. Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) Under (a) Ann's payoff if selling to Betty: Ann's payoff if selling to Carol:	٠	Keliance
Ann's uncle dies and leaves her a beautiful 1959 Corvette in flawless condition. Having no interest in old cars, Ann agrees to sell it to Betty for \$25,000, a fair price given the condition it's in. Not wanting such a beautiful car to get snowed on, Betty pays \$1,000 to rent an indoor parking space close to her home. This reliance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the parking space, Betty expects to get a benefit of \$40,000. Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) (b) Under (a) Ann's payoff if selling to Betty:		
Ann's uncle dies and leaves her a beautiful 1959 Corvette in flawless condition. Having no interest in old cars, Ann agrees to sell it to Betty for \$25,000, a fair price given the condition it's in. Not wanting such a beautiful car to get snowed on, Betty pays \$1,000 to rent an indoor parking space close to her home. This reliance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the parking space, Betty expects to get a benefit of \$40,000. Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) (b) Under (a) Ann's payoff if selling to Betty:		
Ann's uncle dies and leaves her a beautiful 1959 Corvette in flawless condition. Having no interest in old cars, Ann agrees to sell it to Betty for \$25,000, a fair price given the condition it's in. Not wanting such a beautiful car to get snowed on, Betty pays \$1,000 to rent an indoor parking space close to her home. This reliance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the parking space, Betty expects to get a benefit of \$40,000. Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) (b) Under (a) Ann's payoff if selling to Betty:		
Ann's uncle dies and leaves her a beautiful 1959 Corvette in flawless condition. Having no interest in old cars, Ann agrees to sell it to Betty for \$25,000, a fair price given the condition it's in. Not wanting such a beautiful car to get snowed on, Betty pays \$1,000 to rent an indoor parking space close to her home. This reliance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the parking space, Betty expects to get a benefit of \$40,000. Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) (b) Under (a) Ann's payoff if selling to Betty:		
Ann's uncle dies and leaves her a beautiful 1959 Corvette in flawless condition. Having no interest in old cars, Ann agrees to sell it to Betty for \$25,000, a fair price given the condition it's in. Not wanting such a beautiful car to get snowed on, Betty pays \$1,000 to rent an indoor parking space close to her home. This reliance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the parking space, Betty expects to get a benefit of \$40,000. Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) (b) Under (a) Ann's payoff if selling to Betty:		
Ann's uncle dies and leaves her a beautiful 1959 Corvette in flawless condition. Having no interest in old cars, Ann agrees to sell it to Betty for \$25,000, a fair price given the condition it's in. Not wanting such a beautiful car to get snowed on, Betty pays \$1,000 to rent an indoor parking space close to her home. This reliance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the parking space, Betty expects to get a benefit of \$40,000. Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) (b) Under (a) Ann's payoff if selling to Betty:		
Ann's uncle dies and leaves her a beautiful 1959 Corvette in flawless condition. Having no interest in old cars, Ann agrees to sell it to Betty for \$25,000, a fair price given the condition it's in. Not wanting such a beautiful car to get snowed on, Betty pays \$1,000 to rent an indoor parking space close to her home. This reliance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the parking space, Betty expects to get a benefit of \$40,000. Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) (b) Under (a) Ann's payoff if selling to Betty:		
Ann's uncle dies and leaves her a beautiful 1959 Corvette in flawless condition. Having no interest in old cars, Ann agrees to sell it to Betty for \$25,000, a fair price given the condition it's in. Not wanting such a beautiful car to get snowed on, Betty pays \$1,000 to rent an indoor parking space close to her home. This reliance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the parking space, Betty expects to get a benefit of \$40,000. Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) (b) Under (a) Ann's payoff if selling to Betty:	zargainii	<u>19</u>
Ann's uncle dies and leaves her a beautiful 1959 Corvette in flawless condition. Having no interest in old cars, Ann agrees to sell it to Betty for \$25,000, a fair price given the condition it's in. Not wanting such a beautiful car to get snowed on, Betty pays \$1,000 to rent an indoor parking space close to her home. This reliance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the parking space, Betty expects to get a benefit of \$40,000. Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) (b) Under (a) Ann's payoff if selling to Betty:	From	Sample exam question's
home. This reliance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the parking space, Betty expects to get a benefit of \$40,000. Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) (b) Moder (a) Ann's payoff if selling to Betty:	Ann's uncle di	es and leaves her a beautiful 1959 Corvette in flawless condition. Having no interest in old cars, Ann
Two days before Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers Ann \$50,000 for the car. Two ways to establish payoffs (a) (b) Ann's payoff if selling to Betty:		uch a beautiful car to get snowed on. Betty pays \$1,000 to rent an indoor parking space close to her
Two ways to establish payoffs (a) (b) Under (a) Ann's payoff if selling to Betty:		liance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the
(a) (b) Under (a) Ann's payoff if selling to Betty:	parking space,	liance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the Betty expects to get a benefit of \$40,000.
(a) (b) Under (a) Ann's payoff if selling to Betty:	parking space, Two days befo	liance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the Betty expects to get a benefit of \$40,000. The Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers
(th) Under (a) Ann's payoff if selling to Betty:	parking space, Two days befo Ann \$50,000 f	liance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the Betty expects to get a benefit of \$40,000. The Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers for the car.
Under (a) Ann's payoff if selling to Betty:	parking space, Two days before Ann \$50,000 f	liance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the Betty expects to get a benefit of \$40,000. The Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers for the car.
Ann's payoff if selling to Betty:	parking space, Two days before Ann \$50,000 f	liance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the Betty expects to get a benefit of \$40,000. The Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers for the car.
and the contract of the contra	parking space, Two days before Ann \$50,000 f	liance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the Betty expects to get a benefit of \$40,000. The Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers for the car.
and the contract of the contra	parking space, Two days before Ann \$50,000 from Two work (a)	liance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the Betty expects to get a benefit of \$40,000. The Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers for the car.
	parking space, Two days before Ann \$50,000 for Two work (a) (b)	liance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the Betty expects to get a benefit of \$40,000. The Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers for the car.
	parking space, Two days before Ann \$50,000 for Two work (a) (b) Under (a) Ann's p	liance is both efficient and foreseeable, and the \$1,000 is not refundable. From having the car and the Betty expects to get a benefit of \$40,000. The Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers for the car. The Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers for the car. The Ann and Betty meet to exchange money and keys, Carol hears about the arrangement, and offers for the car.

Under (t)
Ann's payoff if selling to Betty:
Ann's payoff if selling to Carol:
> Doesn't matter which way you go with,
as long as you're consistent ?
7 7
If Ann & Betty Largain so that Ann can sell to Carol
(1) Threat points:
For Ann:
For Ann: For Betty:
(2) Gains from coop:
Combined pompoff pre =
Combined payoff post =
=> gains from coop =
(3) Evenly split

Property Law
O Normative Coase vs. Normative Hobbes
when to use? Goal?
Norm. Coase
Norm. Hobbes
② Eff remedies?
Entitlement
transferable?
Tes No
Low TC?
Ter No
Damages easy to measure & innovation
Occurs rapidly?
Yer No

Contract Law
O Bargain theory
offer
0.000-10-00
acceptance consideration Both sides need to give up something
Consideration (Both Sides need to give up something
to the other
② Damager
3 Breach / Investment in perf / Reliance
a property to beit I bellowing

4) Unite knowledge and control
Tort Law
1) The Hand rule
2 Accidents between seller & its customers
When is customer's activity level efficient?
4

Criminal Law D Social costs 2 Marginal costs of deterrence "The marginal cost of deterring another "The marginal cost of deterring another crime could be positive or negative" crime could be positive or negative" • Social cost of each crime: \$10,000 Social cost of each crime: \$10,000 • Cost of trial and punishment: \$100,000 Cost of trial and punishment: \$100,000 • Increase fraction of crimes detected from 15% to 20% Increase fraction of crimes detected from 15% to 20% (a) Suppose this increase in detection would result in a decrease in the (b) Now suppose instead that the increase in detection would decrease the number of crimes committed from 1,000 a year to 700 a year. number of crimes committed from 1,000 a year to 900 a year. i. Calculate the effect that hiring the new policemen would have on the social cost of i. Calculate the effect that hiring the new policemen would have on the social cost of crimes committed. crimes committed. before: 1,000 X \$10,000 = \$10,000,000 before: 1,000 X \$10,000 = \$10,000,000 after: 700 X \$10,000 = \$7,000,000 after: 900 X \$10,000 = \$9,000,000 effect: \$3,000,000 reduction in social cost of crime effect: \$1,000,000 reduction in social cost of crime ii. Calculate the effect it would have on the cost of trying and punishing offenders. ii. Calculate the effect it would have on the cost of trying and punishing offenders. before: 1,000 X 15% X \$100,000 = \$15,000,000 before: 1,000 X 15% X \$100,000 = \$15,000,000 after: 700 X 20% \$100.000 = \$14.000.000 after: 900 X 20% \$100.000 = \$18.000.000 effect: \$1,000,000 reduction in cost of trials and punishment effect: \$3,000,000 increase in cost of trials and punishment iii. From an efficiency point of view, what is the most that the city should be willing to iii. From an efficiency point of view, is there any positive amount that the city should pay for the new policemen? be willing to pay for the new policemen? \$4,000,000, since this is how much social costs are reduced by No – higher detection increases social costs, so even if the new policemen $_{\rm 23}$ having higher detection were free, from an efficiency point of view, we wouldn't want them!

Others
1) Hindsight bias
6 (all 100 5 a 150)
2 Self-serving bias