

Service des formations professionnalisées

# MASTER 1

# International and Europan Law

## UE 11 Law and Economics (Cours de M. SEPE)

## <u>05 mai 2017</u>

9h30 - 11h30

\_\_\_\_\_

Aucun document n'est autorisé.

Année universitaire 2016-2017

Session 1

#### UNIVERSITE TOULOUSE 1 CAPITOLE

2 rue du Doyen-Gabriel-Marty - 31042 Toulouse cedex 9 - France - Tél. : 05 61 63 35 00 - Fax : 05 61 63 37 98 www.ut-capitole.fr

- 1. You have two hours to complete the examination.
- 2. There are 3 pages to this exam (including the cover page). Please make sure that you have all of the pages.
- 3. There are four questions to this exam, each scoring 25 points for a total of 100 points.
- 4. If to answer any part of the questions, you believe it would be helpful to have additional information about the factual background, you should say so in your answer and explain what information is needed and indicate how your conclusions might be affected by that additional information.

### **Part I – General Questions**

- (A) State and briefly discuss the market failures we covered in class.
- (B) State and discuss the two propositions of the Coase Theorem.
- (C) If Party 1 has a liability rule remedy against Party 2, who has the property right, Party 1 or Party 2? Explain the reasoning and provide examples.
- (D) Assume now that Party 1 can demand infinite damages to Party 2. Would you change your answer to the previous question? Explain the reasoning.
- (E) Briefly describe expectation damages, reliance damages, restitution and how each works.

#### **Part II – Cooperation and Defection**

There are two contracting parties: John (Player 1) and Lisa (Player 2). They can either cooperate or defect. If they both cooperate, they get Euro 8 each. If they both defect, they get Euro 4 each. If Lisa cooperates and John defects, they get Euro 0 and Euro 10 respectively. If John cooperates and Lisa defects, they get Euro 0 and Euro 10 respectively.

- (A) Write the game in normal-form (i.e., matrix form).
- (B) What is the equilibrium strategy in pure strategy of the game?
- (C) By changing the original game, design a regime of contractual damages that induces John and Lisa to cooperate. Explain and briefly discuss the steps.

#### UNIVERSITE TOULOUSE 1 CAPITOLE

#### Part III – The Law of Torts

Dangerous Firm collects toxic wastes and later dismantles them near Poor Community. In order to minimize the damage that dismantling toxic wastes can generate to Poor Community, it would be efficient that both Dangerous Firm and Poor Community take proper precautions. For example, it would be desirable that Dangerous Firm dismantles the toxic wastes in special containers. At the same time, it would be desirable that people living in Poor Community use water filters. Both these precautions are costly. Also assume that there is no government regulation on the matter and the only branch of law that regulates the problem is the law of torts.

- (A) Will a regime of absence of liability for Dangerous Firm be efficient? Explain the reasoning.
- (B) Will a regime of strict liability for Dangerous Firm be efficient? Explain the reasoning.
- (C) What liability regime(s) can induce both Dangerous Firm and Poor Community to adopt precautions?

### **Part IV – Adverse Selection**

There is a market for used laptops. Laptops can be of good or bad quality; however, a prospect buyer does not know the quality of the purchased laptop. That is, a laptop's quality is private information of the seller and a buyer will learn about it only after she (i.e., the buyer) purchases the laptop. If the laptop is of good quality, the laptop gives the buyer a utility of Euro 200. If the laptop is of bad quality, the laptop quality. If the laptop is of good quality, the laptop gives the buyer a utility of good quality, the laptop gives the seller has a different reservation utility depending on the laptop quality. If the laptop is of good quality, the laptop gives the seller a utility of Euro 150. If the laptop is of bad quality, the laptop gives the seller a utility of Euro 120.

- (A) Assume that the proportion of sellers of good laptops is 90 percent, what is the maximum price that a rational buyer will offer? Will good and bad laptops be traded? Is that efficient? Explain the reasoning.
- (B) Assume that the proportion of sellers of good laptops is 50 percent, what is the maximum price that a rational buyer will offer? Will good and bad laptops be traded? Is that efficient? Explain the reasoning.
- (C) Assume that sellers can also issue a guarantee, which can be activated by the buyer if the laptop is of bad quality. The activation of the guarantee gives the buyer a payment of Euro 100. With this legal mechanism, will good and bad laptops be traded? Is that efficient? Explain the reasoning.