

# Law and Economics

LM in Economics, University of Rome Tor Vergata

Fall 2015

Instructor: Giancarlo Spagnolo

[Giancarlo.Spagnolo@uniroma2.it](mailto:Giancarlo.Spagnolo@uniroma2.it), [spagnologianca@gmail.com](mailto:spagnologianca@gmail.com)

URL: <https://sites.google.com/site/giancarlospagnoloshomepage/>

This course will be composed of two complementary parts. The first will provide a broad overview of the scholarly field known as "law and economics", with focus on how legal rules and institutions can correct market failures. We will discuss most of the traditional themes of this field, including, among others, the economic function of contracts, remedies for breach of contract and the Coase theorem; liability rules and regulation; economic motives to commit crimes and optimal deterrence for individuals, firms and for different forms of crime; litigation incentives and choice and interaction between private action and public law enforcement.

This first part will be based on these three sources:

- Polinsky, M. *An Introduction to Law and Economics*. 4<sup>th</sup> edition (2011)
- Miceli, T. *The Economic Approach to Law*. 2<sup>nd</sup> edition (2008)
- Cooter R. and T. Ulen. *Law and Economics*. 5th or 6th edition.
- Yezer, A. *Economics of Crime and Enforcement*, (2014)
- Polinsky, A. Mitchell & Steven Shavell, "[Public Enforcement of Law](#)," (Handbook of Law and Economics, Vol. 1, A. Mitchell Polinsky and Steven Shavell, eds., "[Economic Analysis of the Law](#)," Elsevier, 2007, 403-454)
- Polinsky, A. Mitchell & Steven Shavell, *Economic Analysis of Law* (The New Palgrave Dictionary of Economics, 2nd edition, 2008)
- Chalfin A. and J. McCrary. "[Criminal Deterrence: a Review of the Literature](#)" (2014).

With this background, the second part of the course will explore in greater depth a few topics on which the research debate is currently more lively and where open issues for novel law and economic research appear more promising. The idea is to bring students at the research

frontier in some of these topics, so that they are ready for thinking at an interesting and novel project for the final thesis.

This second part will be based on background readings, listed below, and on specific research papers that I will assign in advance during the course, so you can read them before the relevant lectures. Below there are the background readings for each of these topics.

Depending on time availability, the specific topics will be chosen among the following ones:

- Antitrust law and its enforcement: introduction and objectives of law enforcement agencies ([Buccirossi et al. 2014](#); [Connors and Lande 2014](#); [Marvao and Spagnolo 2014](#); [Daughety and Reinganum 2009](#); Motta 2014; Harrington and Chang 2015)
- Fines, errors, deterrence and over-deterrence (Buccirossi and Spagnolo 2008; [Buccirossi et al. 2015](#); Boyer et al. 2015; Immordino, Polo and Pagano 2014; Stanca et al. 2013)
- Judgment proofing ([Buccirossi and Spagnolo 2007, 2008](#); [Che and Spier 2008](#); Spagnolo 2015)
- Leniency, accomplice-witnesses and whistleblowers: deterring organized crime in general ([Spagnolo 2008](#); [Dyck, Morse and Zingales 2011](#); [Acconcia, Immordino and Rey 2014](#); [Bigoni et al. 2014](#); [Chassang and Padro i Miquel 2014](#); Screening, fines and leniency)
- Leniency, Plea bargaining, Settlements and information disclosure. (Buccirossi, Marvao and Spagnolo, 2015; Kobayashi 1992, 1996; Spier 1992, 2007, 2008)
- Corruption: how to find it and how to fight it ([Svensson 2005](#); [Bannerjee et al. 2013](#); [Buccirossi and Spagnolo 2006](#); [Dufwenberg and Spagnolo 2015](#); [Basu et al. 2015](#), Miller 2009; Spagnolo and Perrotta 2015; Bandiera, Prat and Valletti 2009; Conference papers)
- Law, norms, culture and their interaction with formal laws ([Guiso et al. 2015](#); [Acemoglu and Jackson 2015](#); Benabou and Tirole 2011; Basu 2015)
- Private vs public order, long term relationships and arm's length contracts, Discretion and law enforcement (Bodoh-Creed 2015; Coviello et al 2015; Duflo et al. 2015; BPV 2009; Coviello e al. 2015; MacLeod 2007; Malcomson 2013; Crowding out, Random audit vs discretion, ...)

- Reputation vs court and product liability ([Dullek et al. 2011](#); [Daughety and Reinganum 2011](#); Dellarocas 2012; Iossa and Rey 2015; Iossa and Spagnolo 2014)
- Limited liability, liability rules, and extended liability ([Martimort and Hiriart 2006](#); Ganuza et al. on liability rules in procurement)
- Court efficiency and economic activity (Coviello et al. 2015; Guiso et al. 2015; Ichino et al. 2014; and references therein)
- Identifying deterrence effects empirically: recent work by the "Italian clan": Barbarino, Buonanno, Drago, Galbiati, Mastrobuoni, Terlizese, etc.
- Topics in behavioral and experimental law and economics ([Jolls 2011](#); [Wright and Ginsburg 2012](#); [Engel 2013](#); Rustichini and Gneezy, Experiments on punishments...)
- Optimal trade offs between rules and discretion (Banfield, 1975; Shavell 2005; Bowen, Kreps and Skryzpacz 2013; Bandiera, Prat and Valletti 2009; Coviello et al. 2015; Duflo et al., 2015).

**NB: All the material you need to read on the second part, as covered in 2015, is posted in the "materiale didattico" section in form of "slides" and "papers".**

### **Office hours.**

Wed. 17.00-19.00, Thur. 12.00-13.00, by appointment.

### **Assignments and exam.**

*Project:* All students will identify a paper(s) of particular interest during the first part of the course, study it in detail, including the recent literature it contributes to, write a referee report about it, and then present that paper and the comments in the referee report at the end of the course to the class for discussion. After the presentation and discussion in class, each student can then write a short research proposal/project based on that topic (or on a topic presented by a colleague if preferred). The idea is to stimulate critical attitudes, learn how to present a bit more effectively a paper, learn how to write a research project, and develop ideas for a master thesis. The week 19-13 October will see no frontal lectures and the corresponding time will be dedicated to the study of the papers and the writing of the referee

reports and the presentations for the following week. The key-words for this project will be synthesis, focus and depth.

*Exam:* Then there will be a written exam, consisting on two questions on the topics we covered in the course, to be answered in a maximum of five lines.

### **Grading**

50% of grading will be based on presentation+referee report (+ optional research project). The remaining 50% will be based on the written exam.

### **Students that did not attend the course**

Students that want to take the exam but could not attend the course, because in Erasmus or for work-related reasons, need to contact the teacher in advance to receive a paper to referee. The paper to referee will be assigned 10 days before the exam and the referee report will have to be e-mailed to the teacher 3 days before the exam. Because they did not do the presentation, these students will also have an additional question to answer at the exam (and additional time to do it).