



Course and Examination Fact Sheet: Autumn Semester 2020

5,248: Economic Incentives and the Law: A Decision-Theoretic Approach

ECTS credits: 3

Overview examination/s

(binding regulations see below)

Decentral - Presentation (in groups - all given the same grades) (75%)

Examination time: term time

Decentral - Active participation (25%)

Examination time: term time

Attached courses

Timetable -- Language -- Lecturer

[5,248,1.00 Economic Incentives and the Law: A Decision-Theoretic Approach](#) -- Englisch -- [Gärtner Dennis](#)

Course information

Course prerequisites

The topics of this course will be analyzed using (micro) economic reasoning and models. The models will mostly be from the theory of consumer choice and the firm as well as game theory. Some models include basic aspects of asymmetric information.

Participants should have a basic knowledge of and interest in game theoretic concepts. Optimally, this course will be taken after having successfully completed Micro II, but motivated students should find it quite feasible to take the course during the same semester as Micro II, as the vast majority of concepts used will in principle be familiar from the assessment class in microeconomics.

There will be a brief review of the required tools at the beginning of the course.

Note: This is **not** a course about trade or competition law. **No prior legal knowledge is required.**

Learning objectives

The interdisciplinary nature of this course will enable students to see how economic reasoning and tools they might already be familiar with, can be applied to study the incentives created by legal provisions. The course's interactive character will also foster communication and presentation skills of the participants.

Course content

This course looks at the role of legal institutions through an economist's lens: using microeconomic tools, particularly game theory, we seek to understand the incentives created by legal provisions such as property rights, damage regulations, regulations governing breach of contract, and how these legal provisions help promote efficiency.

As an example, we will analyze how different liability rules in case of accidents change behavior.

An interesting case in this regard happened a few years ago: smart phones of one of the major producers burst into flames because of faulty batteries. The producer issued a recall of the defective phones a few weeks after the phone was launched, but by then injuries of several people as well as multiple cases of damaged property had been reported. The affected phones were first replaced but it later turned out that the replacement phones suffered from the same failures. The phone was later discontinued and completely pulled from the market.

This exemplary case posed interesting questions about liability: Should the manufacturer be held liable for damages and injuries caused to users of its phone? To third parties? Does the answer change if users continued to use their phones after they learned about the danger of doing so? Should the manufacturer be forced to pay higher compensations since the replacement devices suffered from the same problem?

We will also try to answer questions like "do higher sentences lead to less criminal activity?" or "under what conditions are



parties willing to settle instead of pursuing a lawsuit?".

To tackle those and other legal questions, groups of participants will, following the textbook, develop and present economic models. On the one hand, participants will be able to judge legal rules with regard to their efficiency (positive analysis). On the other hand, the course will enable participants to think about designing legal rules with the goal to achieve efficiency (normative analysis).

Course structure

The course is built around chapters of the textbook *The Economic Approach to Law* by Thomas Miceli (see below, with the exception of the part on "Antitrust Law" which will be based on the textbook by Belleflamme and Peitz).

Based on the corresponding chapters of the textbook, the preliminary topics of the course cover the following six areas, typically consisting of one general model and some extensions to this model:

- Tort (or Accident) Law
- Contract Law
- Property Law
- Economics of Crime
- Economics of Legal Procedure (Litigation/Lawsuits)
- Antitrust Law

The basic models will be presented by students in groups. The understanding of the models will be deepened in the lectures where we will examine extensions and applications of the models. We will additionally solve exercises from the textbook in order to apply the theoretical findings.

Course literature

Miceli, Thomas J. *The Economic Approach to Law*. Stanford University Press, 2017, and selected references therein.

Belleflamme, P., & Peitz, M. (2015). *Industrial Organization: Markets and Strategies*. Cambridge University Press. (for the part on Antitrust)

Additional course information

In the case of the President's Board having to implement new directives due to the SARS-CoV-2 pandemic in AS2020, the course information listed above will be changed as follows:

- The course is conducted online via the platform Zoom;
- The lecturer informs via StudyNet on the changed implementation modalities of the course;

The examination information listed below would be changed as follows:

- The presentations are conducted online and are being recorded;
- The examination part "active participation" is replaced by a "group homework (all given the same grade)" that has to be handed in by the end of the semester. In this homework, students will be asked to summarize and critically reflect one of the research articles used in the lectures.
- Further information are communicated via StudyNet.

Examination information

Examination sub part/s

1. Examination sub part (1/2)

Examination time and form



Decentral - Presentation (in groups - all given the same grades) (75%)

Examination time: term time

Remark

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Examination-aid rule

Practical examination

No examination-aid rule is necessary for such examination types. The rules and regulations of the University of St. Gallen apply in a subsidiary fashion.

Supplementary aids

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Examination languages

Question language: English

Answer language: English

2. Examination sub part (2/2)

Examination time and form

Decentral - Active participation (25%)

Examination time: term time

Remark

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Examination-aid rule

Practical examination

No examination-aid rule is necessary for such examination types. The rules and regulations of the University of St. Gallen apply in a subsidiary fashion.

Supplementary aids

none

Examination languages

Question language: English

Answer language: English

Examination content

Each group of participants presents one of the baseline models of the six areas mentioned above (roughly 90 minutes).

Students are expected to read the relevant literature in advance so that a discussion about the topics can emerge in class. The grade for active participation will in part be based on those discussions.

Examination relevant literature

Miceli, Thomas J. *The economic approach to law*. Stanford University Press, 2017, and selected references therein.

Belleflamme, P., & Peitz, M. (2015). *Industrial Organization: Markets and Strategies*. Cambridge University Press. (for the part on Antitrust)



Please note

Please note that only this fact sheet and the examination schedule published at the time of bidding are binding and takes precedence over other information, such as information on StudyNet (Canvas), on lecturers' websites and information in lectures etc.

Any references and links to third-party content within the fact sheet are only of a supplementary, informative nature and lie outside the area of responsibility of the University of St.Gallen.

Documents and materials are only relevant for central examinations if they are available by the end of the lecture period (CW51) at the latest. In the case of centrally organised mid-term examinations, the documents and materials up to CW 42 are relevant for testing.

Binding nature of the fact sheets:

- Course information as well as examination date (organised centrally/decentrally) and form of examination: from bidding start in CW 34 (Thursday, 20 August 2020);
- Examination information (regulations on aids, examination contents, examination literature) for decentralised examinations: in CW 42 (Monday, 12 October 2020);
- Examination information (regulations on aids, examination contents, examination literature) for centrally organised mid-term examinations: in CW 42 (Monday, 12 October 2020);
- Examination information (regulations on aids, examination contents, examination literature) for centrally organised examinations: two weeks before the end of the registration period in CW 44 (Thursday, 29 October 2020).