

## SYLLABUS

### Course Overview

This course focuses on the intersection of law, economics, and the study of organizations. Note, however, that law and economics is a field of *economics*. As such, we will use the toolkit of applied microeconomics to study the behavior of individuals and firms. You are therefore expected to have a working knowledge of the basic principles of microeconomics (i.e., PPS128 or higher): utility maximization; profit maximization; risk and uncertainty; public goods and externalities; market power; principal-agent model; etc. as well as a good, intuitive grasp of basic applied statistics: linear regression, hypothesis testing, etc.

Although we will cover some theoretical models, the content of the course will be largely empirical. In other words, we will be focusing on what we can, cannot learn, and have learned from taking these models to the data as well as on the policy implications of the main empirical findings. The course will be a bit mathematical in nature, but I will be spending a great deal of time walking you through the models in order for you to gain an intuitive understanding of them. I will never ask you to solve theoretical models or estimate empirical models (unless you choose to do so in your term paper), but I will expect you to understand their key features and be able to express them in words. To counterbalance the technical aspects of the course, I will have you read studies dealing with specific policies and discuss them at the end of each section of the syllabus, and I always try to complement academic readings with popular press readings.

### Course Information

**Time:** T 7:15-9:45 in Rubenstein 149  
**Instructor:** Marc F. Bellemare  
**Office:** Rubenstein 110  
**Email:** [marc.bellemare@duke.edu](mailto:marc.bellemare@duke.edu)  
**Office Hours:** Tuesday all day, by appointment. Please schedule office hour visits at least 24 hours ahead of time, for at most 30 minutes.

### Textbook

There are two textbooks for this course, and you are expected to take notes in class. To help you do so, I will post my slides on Blackboard, typically in the hours before lecture, as I tend to work on my slides up until the last minute. I will be uploading the compulsory readings to Blackboard as well.

The following books will be used extensively:

- Milgrom, Paul and John Roberts (1992), *Economics, Organization, and Management*, Upper Saddle River, NJ: Prentice Hall.
- Friedman, David D. (2000), *Law's Order*, Princeton: Princeton University Press.

If you would rather not spend the full amount on your books, I recommend ordering used copies from <http://www.abebooks.com>. To receive your books on time, however, avoid vendors who are not located in the continental US.

## Assignments and Grading

1. *Participation in Discussions:* In each module, I will assign case studies and/or empirical papers to be presented by a student and discussed by the entire class in lecture. You are expected to read the papers and be familiar with their main points so as to be able to discuss them with your peers. Moreover, everyone should be willing to discuss at least one paper among the double-starred readings once in the semester and lead discussion. (15%)
2. *First Midterm Examination:* An in-class, open-book exam on March 1 on the material covered up to and including the previous lecture. (20%)
3. *Second Midterm Examination:* A comprehensive in-class, open-book exam on April 19 on the material covered throughout the semester. (20%)
4. *Assignments:* Three policy memos or problem sets on relevant questions. Due electronically on February 20, March 20, and April 3. (15%)
5. *Research Paper:* You will have to analyze a specific question using the concepts covered in class with the specific aim of identifying the main issues and of formulating a set policy recommendations. Specific guidelines will be handed out early in the semester. Due electronically on May 1. (30%)

*Grading Policy:* The Sanford School's target for mean 200-level course grades is 3.4, and I tend to aim for that target. Should you disagree with me over a grade, you must notify me within one week of receiving the grade by submitting a written explanation of why you think you deserve a (presumably) higher grade. I will then carefully re-grade your exam or assignment in its entirety. If you do not follow this procedure, do not be surprised if I am unwilling to discuss grades: I am using this paper trail system in order to prevent problems down the road for everyone. Note, however, that I will be looking at trends, i.e., if you perform poorly on the first midterm but perform really well on the second midterm and on your research paper, I will adjust your grade accordingly.

Finally, note that I will absolutely not tolerate frivolous requests for regrades (e.g., requests born of a desire to go to law school, for example). There needs to be a nondegenerate grade distribution in every class, if only to set up the proper incentives for you to learn the material. This unfortunately means that grades may span the full grading scale.

There will be no make-up exam. Should you (justifiably) be absent from either one of the two midterms, the other midterm will simply account for the entirety of your exam grade, with adjustment with respect to the mean of the midterm you were absent from.

*Email and Social Media Policy:* If something is due electronically, I ask that you use email to submit it rather than Blackboard's drop box. I will always send you a confirmation email that states that I have (i) received your work; and (ii) successfully opened the file. If you do not receive such a confirmation email from me within an hour, email me again as soon as possible. Lastly, I do not interact with (current) students via Facebook, but you are strongly encouraged to read my blog at <http://marcfbellemare.com> since I will often post examples of law and economics problems of interest, and which are likely to become exam questions.

## Academic Integrity

I will strictly enforce [Duke's Academic Integrity Policy](#), reproduced in part here as a reminder:

*"Intellectual and academic honesty are at the heart of academic life of any university. It is the responsibility of all members of our academic community to abide by Duke's strict expectations regarding proper citation of sources. It is also critically important to resist strenuously the temptation to cheat. Acts of academic dishonesty, including plagiarism and cheating, are considered very serious offenses. Students found guilty of plagiarism, cheating, or other forms of academic dishonesty are generally suspended. The academic and nonacademic offenses recognized at Duke and the range of sanctions imposed for them are explained in the Bulletin of Information and Regulations distributed to each incoming student. Please read the bulletin carefully and make sure you understand its content."*

## Readings

The following list of topics and readings is only indicative, as I might add or subtract readings as we go along and I discover new material. I will try to post the relevant articles on Blackboard or give you photocopies of book chapters and case studies. Asterisks (\*) denote compulsory reading materials. Double asterisks (\*\*) denote papers to be presented in lecture by a student.

### I. Introduction

#### 1. Markets and Resource Allocations

- \*Milgrom and Roberts, ch. 3.
- \*Friedman, ch. 1 to 3.
- \*\*Harford, T. (2007), *The Undercover Economist*, New York: Random House, ch. 1 to 3.

#### 2. Incentives

- \*Milgrom and Roberts, ch. 6.
- \*Harford, T. (2007), *The Undercover Economist*, New York: Random House, ch. 1 to 3.
- \*\*Chiappori, P.-A., and B. Salanié (2000), "Testing for Asymmetric Information in Insurance Markets," *Journal of Political Economy* 108(1): 56-78.
- Levitt, S.D. and S.J. Dubner (2004), *Freakonomics*, New York: William Morrow.
- Prendergast, C. (1999), "The Provision of Incentives in Firms," *Journal of Economic Literature*, Volume 37, pages 7-63.

## II. Private Law

### 1. Institutions

- \*Milgrom and Roberts, ch. 1.
- \*Friedman, ch. 4.
- Fafchamps, M. (2004), *Market Institutions in Sub-Saharan Africa*, Cambridge, MA: MIT Press, ch. 1 and 2.
- North, D.C. (1990), *Institutions, Institutional Change, and Economic Performance*, Cambridge, UK: Cambridge University Press, ch. 1 to 6 and 8.
- \*\*Platteau, J.-P. (1994a), "Behind the Market Stage Where Real Societies Exist - Part I: The Role of Public and Private Order Institutions", *Journal of Development Studies*, Volume 30, pages 533-577.

### 2. Property

- \*Milgrom and Roberts, ch. 9.
- \*Friedman, ch. 5, 10, and 11.
- Barzel, Y. (1997), *Economic Analysis of Property Rights*, Cambridge: Cambridge University Press.
- Bellemare, M.F. (2010), "The Productivity Impacts of Formal and Informal Property Rights," Working Paper, Duke University.
- \*Bellemare, M.F. and A.M. Holmberg (2010), "The Determinants of Music Piracy in a Sample of College Students," Working Paper, Duke University.
- \*\*Besley, T. (1995), "Property Rights and Investment Incentives: Theory and Evidence from Ghana," *Journal of Political Economy*, Volume 103, pages 903-937.
- Ellickson, R.C. (1993), "Property in Land," *Yale Law Journal*, Volume 102, pages 1315-1400.
- Libecap, G. (1994), *Contracting for Property Rights*, Cambridge: Cambridge University Press.
- Miceli, T. and K. Segerson (2007), "[Private Property, Public Use, and Just Compensation: The Economics of Eminent Domain](#)," Working Paper, University of Connecticut,
- Maurer, S.M. and S. Scotchmer (2006), "[Open Source Software: The New Intellectual Property Paradigm](#)," NBER Working Paper.

### 3. Contracts

#### 3A. Risk Sharing and Incentives

- \*Milgrom and Roberts, ch. 9.
- \*Friedman, ch. 6, 7, and 12.
- Bellemare, M.F. and Z.S. Brown (2010), "On the (Mis)Use of Wealth as a Proxy for Risk Aversion," *American Journal of Agricultural Economics* 92(1): 273-282.
- Chakravarty, S. and W.B. McLeod (2008), "Contracting in the Shadow of the Law," *RAND Journal of Economics* 40(3): 533-557.
- Chiappori, P.-A. and B. Salanié (2003), "Testing Contract Theory: A Survey of Some Recent Work," in M. Dewatripont, L.P. Hansen, and S.J. Turnovsky, eds., *Advances in Economics and Econometrics*, volume 1, Cambridge, UK: Cambridge University Press.

- \*Gardner, D. (2009), *Risk*, Toronto: McClelland and Stewart (published in the US under the title *The Science of Fear*), prologue and ch. 1.
- Hart, O. and B. Holmstrom (1987), "The Theory of Contracts," in T. Bewley, ed., *Advances in Economic Theory: Fifth World Congress*, Cambridge, UK: Cambridge University Press.
- \*\*Schwartz, A. and R.E. Scott (2003), "Contract Theory and the Limits of Contract Law," *Yale Law Journal*, Volume 113, pages 541-619.
- Schwartz, A. (1979), "The Case for Specific Performance," *Yale Law Journal*, Volume 89, pages 271-306.

### **3B. Contract Enforcement**

- Bellemare, M.F. (2010), "Agricultural Extension and Imperfect Supervision in Contract Farming: Evidence from Madagascar," *Agricultural Economics* 41(6): 507-517.
- \*Fafchamps, M. and B. Minten (2001), "Property Rights in a Flea Market Economy", *Economic Development and Cultural Change*, Volume 49, pages 229-267.
- Frisvold, G.B. (1994), "Does Supervision Matter? Some Hypothesis Tests Using Indian Farm-Level Data," *Journal of Development Economics*, Volume 43, pages 217-238.
- \*\*Hubbard, T.N. (2000), "The Demand for Monitoring Technologies: The Case of Trucking," *Quarterly Journal of Economics*, Volume 115, pages 533-560.
- \*North, D.C. (1990), *Institutions, Institutional Change, and Economic Performance*, Cambridge, UK: Cambridge University Press, ch. 7.

### **3C. Relational Contracts**

- \*Milgrom and Roberts, ch. 8
- \*\*Bernstein, L. (1992), "Opting Out of the Legal System: Extralegal Contractual Relations in the Diamond Industry," *Journal of Legal Studies* 21(1): 115-157.
- Brown, M., A. Falk, and E. Fehr (2004), "Relational Contracts and the Nature of Market Interactions," *Econometrica*, Volume 12, pages 747-780.
- Fafchamps, M. (2004), *Market Institutions in Sub-Saharan Africa*, Cambridge, MA: MIT Press, ch. 1 and 2.
- \*\*Greif, A. (1993), "Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition," *American Economic Review* 83(3): 525-548.
- Hadfield, G.K. (2004), "Contract Law is Not Enough: The Many Legal Institutions that Support Contractual Commitments," Working Paper, University of Southern California.
- Johnson, S., J. McMillan and C. Woodruff (2002), "Courts and Relational Contracts," *Journal of Law, Economics, and Organization*, Volume 18, pages 221-77.
- Macleod, W.B. (2006), "Reputations, Relationships and the Enforcement of Incomplete Contracts", CESifo Working Paper.

#### 4. Tort Law

- \*Friedman, ch. 9 and 14.
- Arlen, J. and MacLeod, W.B. (2003), "Malpractice Liability for Physicians and Managed Care Organizations," *New York University Law Review*, Volume 78, pages 1929-2006.
- Currie, J.M. and W.B. Macleod (2008), "First Do No Harm?: Tort Reform and Birth Outcomes," *Quarterly Journal of Economics*, Volume 123, pages 795-830.
- \*\*Fischer, M. J. (1996), "Union Carbide's Bhopal Incident: A Retrospective," *Journal of Risk and Uncertainty*, Volume 12, pages 257-69.
- \*Shavell, S. (1980), "Strict Liability vs. Negligence," *Journal of Legal Studies* 9(1): 1-25.
- Sloan, F.A. and L.M. Chepke (2008), *Medical Malpractice*, Cambridge: MIT Press.
- Viscusi, W.K. (1993), "The Value of Risks to Life and Health," *Journal of Economic Literature* 31(4): 1912-1946.

#### 5. Norms

- \*Friedman, ch. 17.
- \*\*Ellickson, R.C. (1989), "A Hypothesis of Wealth-Maximizing Norms: Evidence from the Whaling Industry," *Journal of Law, Economics, and Organization* 5(1): 83-97.
- \*Ellickson, R.C. (1994), *Order without Law: How Neighbors Settle Disputes*, Cambridge, MA: Harvard University Press, ch. 1 to 6.
- \*\*Platteau, J.-P. (1994b), "Behind the Market Stage Where Real Societies Exist - Part I: The Role of Moral Norms", *Journal of Development Studies*, Volume 30, pages 753-817.
- Posner, E.A. (2002), *Law and Social Norms*, Cambridge, MA: Harvard University Press.

### III. Special Topics

#### 1. Discrimination

- \*\*Bertrand, M. and S. Mullainathan (2004), "Are Emily and Greg More Employable Than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination," *American Economic Review*, Volume 94, pages 991-1013.
- Fafchamps, M. (2004), *Market Institutions in Sub-Saharan Africa*, Cambridge, MA: MIT Press, ch. 17, 19, and 20.
- \*\*Goldin, C. and C. Rouse (2000), "Orchestrating Impartiality: The Impact of "Blind" Auditions on Female Musicians," *American Economic Review*, Volume 90, pages 715-741. See also the conclusion of Malcolm Gladwell's (2005) *Blink*.
- \*Harford, T. (2008), *The Logic of Life*, New York: Random House, ch. 5 and 6.

#### 2. Corruption

- \*Bardhan, P. (1997), "Corruption and Development: A Review of Issues," *Journal of Economic Literature*, Volume 35, pages 1320-1346.
- Bertrand, M., S. Djankov, R. Hanna and S. Mullainathan (2006), "Does Corruption Produce Unsafe Drivers?," NBER Working Paper.

- \*\*Fisman, R. and E. Miguel (2006), "Cultures of Corruption: Evidence from Diplomatic Parking Tickets," NBER Working Paper. See also the relevant chapter in Fisman and Miguel's (2008) bestselling book, *Economic Gangsters*, chapters 7 and 8.
- Glaeser, E. L. and A. Shleifer (2004), "The Rise of the Regulatory State," *Journal of Economic Literature*, Volume 41, pages 401-425.

### **3. Executive Compensation**

- \*Milgrom and Roberts, ch. 13
- \*\*Bebchuk, L.A. and J.A. Fried (2003), "Executive Compensation as an Agency Problem," *Journal of Economic Perspectives*, Volume 17, pages 71-92.
- Gibbons, R. and K.J. Murphy (1992), "Optimal Incentive Contracts in the Presence of Career Concerns," *Journal of Political Economy*, Volume 100, pages 30-52.
- \*Harford, T. (2008), *The Logic of Life*, New York: Random House, ch. 4.