Law & Economics

Economic Analysis of Law

Introduction, economic theory & analytic methods and tools

Prof. Dr. Andreas Heinemann/ Dr. Mark Steiner
Slides by Prof. Dr. Rolf H. Weber / Dr. Mark Steiner
lst.heinemann@wi.uzh.ch
Agenda

1. Definition and development of Law & Economics
2. Economic concepts
   - Rationality
   - Supply and demand – elasticity
   - Efficiency
3. Application of economic concepts in law: Law & Economics
   - Descriptive questions – effects of law
   - Normative questions – assessment of law
4. Example: Of Carrots, Sticks and Broken Windows
5. Why should a lawyer / economist be concerned with Law & Economics?
Law & Economics – Definitions

- Application of economic theory and methods
  - Formation of law
  - Structure of law
  - Legal processes
  - Effects of law
  - Effects of institutions

- Typical and untypical areas
  - Competition, liability, business, tax, labour law etc.
  - Criminal, family, public law etc.
History of Law & Economics
18th Century – Beginnings

- Hume, Rousseau
  - Constitutional law – „collective action“

- Smith
  - Analysis of mercantilism
  - Market prices, monopolies, regulation

- Bentham – utilitarianism
  - „Greatest happiness principle“
  - Laws concerning human relations (e.g. Marriage, equality, etc.)
  - Prison reform
  - “natural law”

- But: no complete systematic approach
History of Law & Economics
19th Century – Definition of (Property) Rights

- European movement
  - Commons, Molionari, Menger, Schmoller, Wagner, etc.

- „Explanatory science of rights“
  - Natural law unsatisfactory
    - Distinctions related to different “states of nature” unexplained
  - Unequal rights
    - Economic reasons
    - Institutional reasons

- Scientific nature?
  - Telling stories
  - Generalisations
History of Law & Economics
20th Century

- Chicago School (Demsetz, Coase, Becker, Posner, etc.)
  - Property rights
  - Tort law
  - Criminal law
  - Competition law

- Other movements
  - Black, Tiebout, Tullok, Downs
  - Public law, political economy

Systematic analyses with mathematical and statistical methods and tools (price theory, game theory, regression etc.)
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Economic Concepts - Overview

1. Rational choice
   - Optimization
   - Incentives

2. Supply and demand
   - Consumer and producer surplus
   - Elasticity

3. Efficiency
   - Pareto
   - Kaldor-Hicks (extended Pareto efficiency)
Rational Choice (1.)
Opportunity Costs – Preferences

- Decision-making between alternatives
  - Go to cinema or opera?
  - Costs? benefits?
  - Costs (opera) = opera admission + missed movie
  - Opportunity costs: missed alternative

- Individual preferences
  - Money, publicity, love, prestige, etc.
  - Alternatives can be evaluated or/and sorted
    - A is better than B
    - B is better than C
    - Conclusion: A is better than C
Economic Approach (1.)

- Analysis with theory and empirical approach
- Modelling with exceptions
  - Actors are individuals
    - Individual preferences
    - Individual risk-aversion or risk-preference
  - Actors act conscious and „rational“
    - Evaluation of possible alternatives according to preferences
    - Order of alternatives according to preferences

Empirical approach: Individual preferences are made public through acting
Rational choice (1.)
Restriction – Optimization

- Restrictions
  - Money, time, knowledge, etc.

- Decision as optimisation or maximisation
  - Economic actors maximise different target values
    - Firms maximise profits
    - Politicians maximise votes
    - Charities maximise social welfare
    - Individuals maximise their „utility“

- Optimisation: Maximal individual utility with the prevailing restrictions
Rational choice with budget line and indifference curve (1.)
Rational choice
Incentives (1.)

- Economics is behavioural science
  - Preferences stabil
  - Price variable => Incentives variable

- Market prices affect optimisation
  - Supply side
    - Price effects
  - Demand side
    - Income effects
    - Preferences

- Regulation and law affect market prices
Rational choice
Incentives (1.)

- „How Seat Belts Kill“
  - USA, the 60’s: Regulations for road safety
    - Obligation to wear safety belts, padded dashboards, etc.
  - Effect: Less accidents? More accidents?
  - Effects of ABS?

- Energy efficient electrical devices
  - Totally more or less current consumption?
  - Different relative effects

Incentives are decisive!
Book recommendation: Economics in a Different Way (1.)

ISBN-10: 0029177766

ISBN-10: 0684827557

ISBN-10: 1416532226
Supply and Demand (2.)

- Willingness to pay / marginal utility => demand
  - Decreasing marginal utility
  - Consumer surplus
    - Price is lower than willingness to pay
    - Customer segmentation, price differentiation

- Marginal cost => supply
  - Producer surplus
    - Price exceeds marginal costs

- Producer surplus + consumer surplus = total welfare
Elasticity – Substitutability (2.)

- **Price increase** => less consumption
- **Switch to other goods**
  - Similarity
  - Absolute price / income
  - Complementary goods
- **Long run / short run**

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>long run elasticity</td>
</tr>
<tr>
<td>Petrol, oil</td>
<td>0.14</td>
</tr>
<tr>
<td>Dishes</td>
<td>1.34</td>
</tr>
<tr>
<td>Newspapers, magazines</td>
<td>0.10</td>
</tr>
<tr>
<td>Car theft</td>
<td>???</td>
</tr>
</tbody>
</table>
Efficiency (3.)

Productive Efficiency v. Allocative Efficiency

- **Productive efficiency**
  - Maximum output from a given input
  - or
  - Given output with minimal input

- **Allocative or Pareto efficiency**
  - It is not possible to make at least one person better off without making another person worse off
  - NO improvement at the expense of others possible

- **Fairness aspects**
  - No person worse off is seen as fair
  - Research: pareto efficient solutions aren’t always perceived as fair
Efficiency (3.)
Kaldor-Hicks or potential pareto

- Potential Pareto efficiency – Kaldor-Hicks
  - Being worse off is possible
  - But: gainers compensate losers

- Extension of an airport
  - Improvement (value 100 millions)
    - Passengers, airlines, jobs, etc.
    - More routes and destinations
  - Deterioration (value 40 millions)
    - Residents, environment, etc.

- Compensation payments
  - Total „welfare“ increases by 60 millions
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4. Example: O
5. Why should a lawyer / economist be concerned with Law & Economics?
6. Carrots, Sticks and Broken Windows
What does this have to do with Law?

- „Non-market activities“ governed by laws analysed with economics:
  - Commit a crime?
  - Conclude a contract?
  - Get married?
  - Go to court or settle?
  - Drive carefully?
  - Hire somebody?
  - Pollute the environment?
  - Make somebody a citizen?
  - Sell babies?

Legal norms affect decisions of individuals, market prices and efficiency in all areas.
Application of the Concepts:
Law & Economics

- Two questions or types of analysis
  - Descriptive (or positive) analysis
    - Effects of law on behaviour => results
  - Normative analysis
    - Effect of the (prevailing) law on social welfare
    - E.g. How much or which consumer protection is „welfare-maximising“? Does a competition law maximize welfare? Does a legal standard lead to „efficient decisions“? Are trade barriers welfare enhancing/reducing?
Law & Economics
Descriptive Questions

- A marriage market? A crime market?
  - Are there market and non-market activities?
  - Rational choice
    - Cost v. utility of a crime/marriage
  - Law affects cost and utility
  - How do individuals act?
    - Steal, because it is the cheapest way to get an Ipod?
    - Marry to maximise happiness?

Regression analysis provides answers
Descriptive tools: regression analysis

- **Cause-and-effect relationship**
  - Target variable $y$
  - Explanatory variable(s) $x_{(i)}$
  - Ex.: $y = a + bx + e$ (linear regression)

- **Multiple regression**
  - One target variable
  - Several explanatory variables
  - Kind of dependency, strength
  - Error probability, significance

- **Example:** What makes us happy?
Law & Economics
Descriptive Questions

- Legal norms affect relative prices
  - Family law/tax law decreases the price for marriage
  - Stricter criminal law increases the price of crimes
  - Duty of care increases the price for reckless driving
  - Severe punishments on illegal labour increases the costs/price of illegal labour
  - Compulsory health care increases the prices of health insurance
  - Divorce without assignment of guilt ("no fault") decreases the price of divorces (and marriages?)
Law & Economics
Normative Questions

- Application of the law
  - Analysis of the application of the law
    - (Pareto) Efficient judgements?
  - Interpretation – discretion
    - „Economic“ interpretation
  - Precedent – legal standard
    - Affects behaviour
    - Reverses „inefficient“ precedents

- Do courts decide welfare-maximising?
Law & Economics
Normative Questions

- Legislation
  - Effect of legislation
    - Do incentives lead to "efficient" behaviour?
    - Are the right incentives used?
  - Comparative analysis with other states
  - Legislation amendments
    - Analysis of drafts
    - Amendments for "efficient" incentive structures

- Does law maximise our welfare?
**Law & Economics**

**Three Features**

- "Stylized Models" and empirical tests

**Descriptive Analysis**

- Rational actors
- No absolute but central assumptions
- Statements about the effectiveness of law ("Does lead to...")

**Normative Analysis**

- Makes normative statements ("Is better than...")
- Total welfare as measure
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Law & Economics in use: Of Carrots, Sticks & Broken Windows

- The history about the mule…
  - Carrots => positive incentives
  - Sticks => negative incentives

- The „Broken Windows“ Thesis
  - Misdemeanour offenses are important
  - They lead to more serious crimes
  - Smash windows => observer is not concerned

- Effect: Misdemeanour offenses must be prosecuted in a „severe“ way
  - „Nip in the bud“
  - Prevent further escalation
Requirement I:
A verifiable and plausible model

III. Empirical Model

We estimate crime equations of the following form:

\[ CR_{it} = \lambda_i + \sum \alpha_{ij} CR_{i,t-j} + \sum \delta_{ik} ARR_{i,t-k} + \sum \Phi_{ip} POL_{t-p} \]
\[ + \sum \eta_{im} MISARR_{t-m} + \sum \pi_{in} PRIS_{t-n} + \sum \beta_{iq} UR_{t-q} \]
\[ + \sum \gamma_{ir} RMINW_{t-r} + \sum \mu_{t-s} TEENS_{t-s} + \sum \varphi_{iw} SEAS_{w} + \varepsilon_{it}, \]

Source (also for the following illustrations): Corman Hope, Nocan Maci; Of Carrots, Sticks and Broken Windows; Journal of Law and Economics; Vol. XLVIII; 2005.
Of Carrots, Sticks & Broken Windows

- **Hypothesis:** What impacts crime (CR)?
  - Economic environment (carrots)
    - Unemployment (UR)
    - Real minimum wage (RMINW)
  - Punishment (sticks)
    - Arrest rate (detention per crime) (ARR)
    - Number of NYC-citizens in prison (PRIS)
    - Number of policemen in NYC (POL)
  - Broken windows hypothesis in particular
    - Number of arrests for misdemeanours offenses (MISARR)
  - Control variables
    - Number of people aged 14 – 17 in NYC (TEENS)
    - Seasonal control variables (SEAS)
Requirement II:
Empirical Data – Criminality

Figure 1.—Total felony crimes, New York City
Figure 2.—Total felony and misdemeanor arrests, New York City
Requirement II:
Empirical Data – Policemen and Arrested Persons

Figure 5.—Number of police officers and number of New York City residents in state prisons
# Requirement II:

## Empirical Data – Total View

### Table 1

**Descriptive Statistics, December 1974–December 1999**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Arrests:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total misdemeanor</td>
<td>11,149.33</td>
<td>4,131.30</td>
</tr>
<tr>
<td>Motor vehicle</td>
<td>742.10</td>
<td>281.31</td>
</tr>
<tr>
<td>Burglary</td>
<td>1,116.04</td>
<td>445.09</td>
</tr>
<tr>
<td>Grand larceny</td>
<td>1,124.64</td>
<td>221.19</td>
</tr>
<tr>
<td>Assault</td>
<td>1,534.62</td>
<td>302.70</td>
</tr>
<tr>
<td>Murder</td>
<td>95.87</td>
<td>19.42</td>
</tr>
<tr>
<td>Rape</td>
<td>120.73</td>
<td>25.78</td>
</tr>
<tr>
<td>Robbery</td>
<td>1,851.90</td>
<td>329.35</td>
</tr>
<tr>
<td><strong>Incidence of crime:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor vehicle theft</td>
<td>7,790.27</td>
<td>2,357.92</td>
</tr>
<tr>
<td>Burglary</td>
<td>10,697.71</td>
<td>4,130.67</td>
</tr>
<tr>
<td>Grand larceny</td>
<td>13,172.66</td>
<td>2,960.88</td>
</tr>
<tr>
<td>Assault</td>
<td>2,777.89</td>
<td>703.37</td>
</tr>
<tr>
<td>Murder</td>
<td>130.69</td>
<td>40.26</td>
</tr>
<tr>
<td>Rape</td>
<td>268.74</td>
<td>67.83</td>
</tr>
<tr>
<td>Robbery</td>
<td>6,554.41</td>
<td>1,663.83</td>
</tr>
<tr>
<td>Number of police officers</td>
<td>27,426.92</td>
<td>3,612.21</td>
</tr>
<tr>
<td>Number of prisoners from NYC</td>
<td>29,708.17</td>
<td>13,406.24</td>
</tr>
<tr>
<td>NYC unemployment rate</td>
<td>8.59</td>
<td>1.61</td>
</tr>
<tr>
<td>Youth population</td>
<td>486,920.74</td>
<td>30,923.23</td>
</tr>
<tr>
<td>Real minimum wage ($)</td>
<td>3.05</td>
<td>.47</td>
</tr>
</tbody>
</table>

**Note:** NYC = New York City.
## Findings:

### Effects of Control Variables  (1/2)

<table>
<thead>
<tr>
<th>Crime</th>
<th>Coefficient</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Murder:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arrests (1–5)</td>
<td>-.668**</td>
<td>.226</td>
</tr>
<tr>
<td>Police (0–2)</td>
<td>-.508</td>
<td>1.035</td>
</tr>
<tr>
<td>Total misdemeanor arrests (1–5)</td>
<td>-.618</td>
<td>.405</td>
</tr>
<tr>
<td>Number of prisoners from NYC (1–8)</td>
<td>-.075*</td>
<td>.036</td>
</tr>
<tr>
<td>NYC unemployment rate (0–3)</td>
<td>.432</td>
<td>.328</td>
</tr>
<tr>
<td>NYC minimum wage (0)</td>
<td>-.660**</td>
<td>.228</td>
</tr>
<tr>
<td>Burglary:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arrests (1–21)</td>
<td>-.471*</td>
<td>.199</td>
</tr>
<tr>
<td>Police (0–1)</td>
<td>-.276</td>
<td>.227</td>
</tr>
<tr>
<td>Total misdemeanor arrests (1–2)</td>
<td>-.054</td>
<td>.058</td>
</tr>
<tr>
<td>Number of prisoners from NYC (1–18)</td>
<td>-.058**</td>
<td>.023</td>
</tr>
<tr>
<td>NYC unemployment rate (0–2)</td>
<td>.162*</td>
<td>.083</td>
</tr>
<tr>
<td>NYC minimum wage (0–2)</td>
<td>.327</td>
<td>.321</td>
</tr>
<tr>
<td>Assault:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arrests (1–4)</td>
<td>-.247*</td>
<td>.121</td>
</tr>
<tr>
<td>Police (0–1)</td>
<td>-.031</td>
<td>.218</td>
</tr>
<tr>
<td>Total misdemeanor arrests (1–2)</td>
<td>.075</td>
<td>.090</td>
</tr>
<tr>
<td>Number of prisoners from NYC (1–5)</td>
<td>-.007</td>
<td>.010</td>
</tr>
<tr>
<td>NYC unemployment rate(0–1)</td>
<td>.078</td>
<td>.105</td>
</tr>
<tr>
<td>NYC minimum wage (0–1)</td>
<td>.181</td>
<td>.189</td>
</tr>
</tbody>
</table>
### Findings:

#### Effects of Control Variables (2/2)

**Robbery:**
- Arrests (1–12) $-1.322^{**}$ .340
- Police (0–2) $-0.390$ .453
- Total misdemeanor arrests (1–2) $-0.247^{**}$ .050
- Number of prisoners from NYC (1–11) $-0.029^{*}$ .008
- NYC unemployment rate (0–2) $-0.150$ .099
- NYC minimum wage (0–1) $-0.374^{*}$ .205

**Motor vehicle theft:**
- Arrests (1–14) $-1.043^{**}$ .250
- Police (0–2) $-0.577^{*}$ .254
- Total misdemeanor arrests (1–2) $-0.157^{*}$ .065
- Number of prisoners from NYC (1–8) $-0.028^{**}$ .008
- NYC unemployment rate (0) $0.124^{*}$ .041
- NYC minimum wage (0–2) $-0.267$ .359

**Grand larceny:**
- Arrests (1–2) $-0.107^{**}$ .035
- Police (0–1) $-0.673^{**}$ .247
- Total misdemeanor arrests (1) $-0.049^{**}$ .019
- Number of prisoners from NYC (1–4) $-0.020^{*}$ .010
- NYC unemployment rate (0–4) $-0.022$ .083
- NYC minimum wage (0–1) $-0.401^{*}$ .216

**Rape:**
- Arrests (1–4) $-0.425^{*}$ .193
- Police (0–1) $-0.133$ .525
- Total misdemeanor arrests (1–3) $-0.052$ .201
Findings:
Elasticities

### TABLE 3
ELASTICITY OF CRIME ESTIMATES

<table>
<thead>
<tr>
<th>Explanatory Variable</th>
<th>Murder</th>
<th>Assault</th>
<th>Burglary</th>
<th>Robbery</th>
<th>Motor Vehicle Theft</th>
<th>Grand Larceny</th>
<th>Rape</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Own) felony arrest rate</td>
<td>-.40</td>
<td>-.20</td>
<td>-.32</td>
<td>-.57</td>
<td>-.51</td>
<td>-.14</td>
<td>-.32</td>
</tr>
<tr>
<td></td>
<td>-.39</td>
<td>-.24</td>
<td>-.27</td>
<td>-.59</td>
<td>-.50</td>
<td>-.10</td>
<td>-.30</td>
</tr>
<tr>
<td>Total misdemeanor arrests</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- .25</td>
<td>-.16</td>
<td>-.06</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of police officers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-.56</td>
<td>-.67</td>
<td></td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-.59</td>
<td>-.70</td>
<td></td>
</tr>
<tr>
<td>NYC unemployment rate</td>
<td>-.69</td>
<td>.16</td>
<td>.13</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>-.63</td>
<td></td>
<td>.19</td>
<td>.16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real minimum wage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-.37</td>
<td>-.40</td>
<td></td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>-.34</td>
<td>-.36</td>
<td></td>
</tr>
<tr>
<td>Number of prisoners from NYC</td>
<td>-.08</td>
<td>-.06</td>
<td>-.03</td>
<td>-.03</td>
<td>-.03</td>
<td>-.02</td>
<td></td>
</tr>
</tbody>
</table>

Note.—Elasticity estimates are calculated only for significant variables. The top estimate uses a zero-growth steady-state scenario, and the bottom estimate is calculated using the average of the year-to-year growth rate of the explanatory variable. NYC = New York City.
## Findings:

### Explanatory Parts in the Changes

**TABLE 5**

**CONTRIBUTION OF VARIABLES TO THE DECREASE IN CRIME, 1990–99**

<table>
<thead>
<tr>
<th>Predicted Decrease in Crime due to Actual Changes in:</th>
<th>Murder</th>
<th>Burglary</th>
<th>Assault</th>
<th>Motor Vehicle Theft</th>
<th>Robbery</th>
<th>Grand Larceny</th>
<th>Rape</th>
</tr>
</thead>
<tbody>
<tr>
<td>Felony arrest rate&lt;sup&gt;a&lt;/sup&gt;</td>
<td>29</td>
<td>19</td>
<td>11</td>
<td>1</td>
<td>32</td>
<td>3</td>
<td>16</td>
</tr>
<tr>
<td>Misdemeanor arrest rate (increased 72%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of police officers (increased 35%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of prisoners from NYC (increased 24%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NYC unemployment rate (decreased 3%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real minimum wage (increased 12%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total predicted decrease in crime</td>
<td>39</td>
<td>21</td>
<td>11</td>
<td>36</td>
<td>58</td>
<td>34</td>
<td>16</td>
</tr>
<tr>
<td>Actual decrease in crime</td>
<td>73</td>
<td>66</td>
<td>40</td>
<td>73</td>
<td>67</td>
<td>29</td>
<td>46</td>
</tr>
<tr>
<td>Predicted decrease/actual decrease</td>
<td>53</td>
<td>32</td>
<td>28</td>
<td>49</td>
<td>86</td>
<td>117</td>
<td>35</td>
</tr>
<tr>
<td>Contribution of economic variables (carrots) to the actual decrease in crime</td>
<td>11</td>
<td>1.5</td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>Contribution of deterrence variables (sticks) to the actual decrease in crime</td>
<td>42</td>
<td>30</td>
<td>27.5</td>
<td>49</td>
<td>81</td>
<td>103</td>
<td>35</td>
</tr>
<tr>
<td>Share of deterrence measures in explained decrease in crime</td>
<td>79</td>
<td>95</td>
<td>100</td>
<td>98</td>
<td>93</td>
<td>88</td>
<td>100</td>
</tr>
</tbody>
</table>

**NOTE.** — Values are percentages. NYC = New York City

<sup>a</sup> Increases in annual arrest rates from 1990 to 1999 were as follows: murder, 72%; burglary, 65%; assault, 49%; robbery, 56%; motor vehicle theft, 2%; grand larceny, 23%; and rape, 52%.
Agenda

1. Definition and development of Law & Economics
2. Economic concepts
   ▪ Rationality
   ▪ Supply and demand – elasticity
   ▪ Efficiency
3. Application of economic concepts in law: Law & Economics
   ▪ Descriptive questions – effects of law
   ▪ Normative questions – assessment of law
4. Example: Of Carrots, Sticks and Broken Windows
5. Why should a lawyer / economist be concerned with Law & Economics?
Why should legal students/scholars be concerned with Law & Economics?

- **Intellectual Enrichment**
  - New aspects of law

- **Competitive edge in business**
  - Expertise, way of thinking => Understand your business partners!
  - Legal policy, legislation
  - Judge => future prospects and assessments
  - Cases, Contracts and settlements with high sums of money
    - Legal representative as investment advisor
    - Contract jurisprudence

- „Inefficient law“ concerns lawyers in particular
Why should economics students/scholars be concerned with Law & Economics?

- **Broadening horizons**
  - Economics not only for markets and "economy" in a narrow sense

- **Law affects economics**
  - Model assumptions are often influenced by law
  - Real world: Law as restrictions

- **Competitive edge**
  - Law affects every professional and economic sector
  - Positive analysis: potential improvements - Use and fill "gaps"

- **Inefficient law**
  - Improvement opportunity, exploitation of capabilities