Law and Economics Other Topics in Law

Francisco Poggi

Overview



2 Repugnant Markets



Francisco Poggi

Introduction

- This discussion is going to be based on Posner's book: The Economic Analysis of Law (Chapter 5).
 - It was originally published in 1973.
 - There were new editions, but I still feel it's a bit outdated.

- Household is an important economic unit.
 - Consumption decisions.
 - Production.
- Advantages of household organization:
 - Economics of scale
 - Specialization.
- These advantages do not explain why marriage is such a common legal arrangement.
 - Business partners/ roommates.

- A key aspect is that marriages sometimes produce children.
 - Requires large investments.
 - Requires time.
- This explains why Family Law regulates aspects of the sexual life of participants.
- What is a marriage?
 - Bundle of rights and obligations.
 - Partnership: voluntary association.
- Different than other contracts in that:
 - Terms cannot be set freely by participants.
 - sanctions for breach are more severe.
- "puzzling amalgam of legal intrusiveness and legal hands-off-ness."

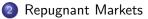
• Breach of contract (divorce).

- Parties might not be free to terminate the contract, even with mutual consent.
- Even if divorce is possible, it is sometimes very restricted.
 - Impossibility of remarry.
- What is the economic reason behind this?
 - Commitment might have economic benefits.
 - Efficiency of mutually beneficial agreements only holds when no others are affected (children).
 - Divorce might affect incentives to wait for good match in the first place. How?

- Breach remedies.
 - Marital assets.
 - How are assets split when a marriage is dissolved?
 - Debt vs equity.
 - Alimony.
 - One of the partners is mandated to pay a fixed sum as long as the other one remains unmarried.
 - One reason might be liquidity constraints when human capital is an important asset.
 - This doesn't explain why to stop payments after remarriage. Unemployment insurance.

Overview







Francisco Poggi

Repugnant Markets

- Term coined by Alvin Roth.
- **Repugnance**: Aversion toward certain transactions, even if the parties engaged in the transaction benefit and there are no other externalities.
- Examples:
 - Organ trade.
 - Life insurance (historically).
 - (Certain) Prediction markets.
 - Prostitution.
 - Surrogacy.
 - Adoption.

Market for Babies

- Adoption is usually a long process in which adoptive parents are screened thoroughly.
- Supply of unwanted babies went down in recent years, also demand.
- However, there is a clear excess of demand.
 - Selling a baby is illegal.
 - Why?

Market for Babies

- Goal is to provide the child with the best home.
 - Not clear that the adoptive parents that are willing to pay the most are the ones that will provide the best home.
- Possible objections:
 - High-paying adopting parents might want the child for the wrong reasons.
 - Screening should work as it does with any other adopting parents.
 - Paying a large amount will deplete the parents' financial ability to support the child.
 - Partial response: Adopting parents will consider this in their decision.
 - Not clear what the legal market price would be.

Market for Babies

- Equality concerns:
 - Rich individuals will end up with all babies. Poor adopting parents will have no chance to compete.
 - This is not clear. Poor applicants might do worse in current adoption law since adoption agencies use income to determine eligibility.

Overview



2 Repugnant Markets



Law Enforcement

• Why is there a need for law enforcement?

- Tort law and Contract Law enforcement are private.
- For Criminal Law relies more on public investigation and prosecution.
- Law Enforcement plays a dual role:
 - Catching criminals.
 - Providing deterrence (Becker model we analyzed before).

• These two motives do not explain why police cars patrol with the 'flashers' on.

A Theory of Optimal Random Crackdowns

- Paper: Eeckhout, Persico, and Todd (2010).
- Crackdowns: Intermittent periods of high intensity policing.
 - Arbitrary.
 - Publicized.

- Examples:
 - Sobriety checkpoints.
 - Speed controls on certain highways.
 - Crackdown on drug trafficking in particular neighborhoods.

• Population of 100 citizens.

- 50 would never commit a crime.
- 50 would commit a crime unless they knew that they are going to get caught.

- The police has resources so that they can perfectly check *n* < 100 citizens.
 - If they knew the type of citizen, the solution is easy:
 - assign police officers to criminal type first.
 - Total crime: max{50 − *n*, 0}

- Suppose instead that type is private information.
 - Assigning resources at random, each citizen is checked with probability n/100.
 - Total crime: 50.

- Suppose that there is an observable characteristic that is **not** correlated with type.
 - 50 citizens have blue eyes and 50 have brown eyes.
 - Resources are assigned first to blue-eyed citizens.
 - Total expected crime: 50 if n < 50 and 25 if n > 50.

• In the previous example, groups were exogenous.

- How would optimal policing work with endogenous groups?
- Homogeneous model
 - Homogeneous individuals.
 - Deterrence threshold: p.
 - Total resources: q.
 - Police want to minimize crime.

Solution:

- $q \ge p$: monitor everyone at the same rate.
- *q* < *p*: Make an as-large-as-possible group with police intensity so that they are indifferent between committing crime and not.
- The other group knows that is not going to be policed at all.

- Convexification argument can be extended to model with heterogeneous individuals.
- We can see this as the second stage in a maximization process (where in the first stage we would decide how much resources to invest.)

- Authors apply the model to analyze the effectiveness of police resources spent on deterring speeding.
 - Eastern Flanders data from 2000-2003.
 - Announced radar controls affecting 6.5 million cars.
 - Resulting in 206k tickets issued.
- Compare the probability of speeding in the crackdown and non-crackdown groups.
- This makes it possible to measure the effect of increasing the level of resources overall.
 - Close to the marginal cost.