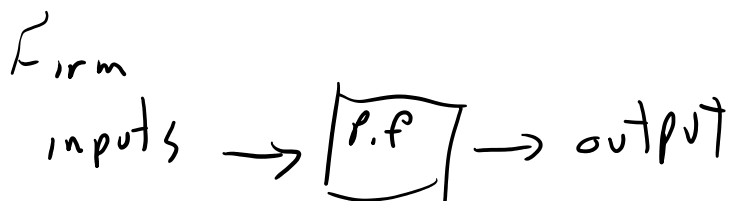
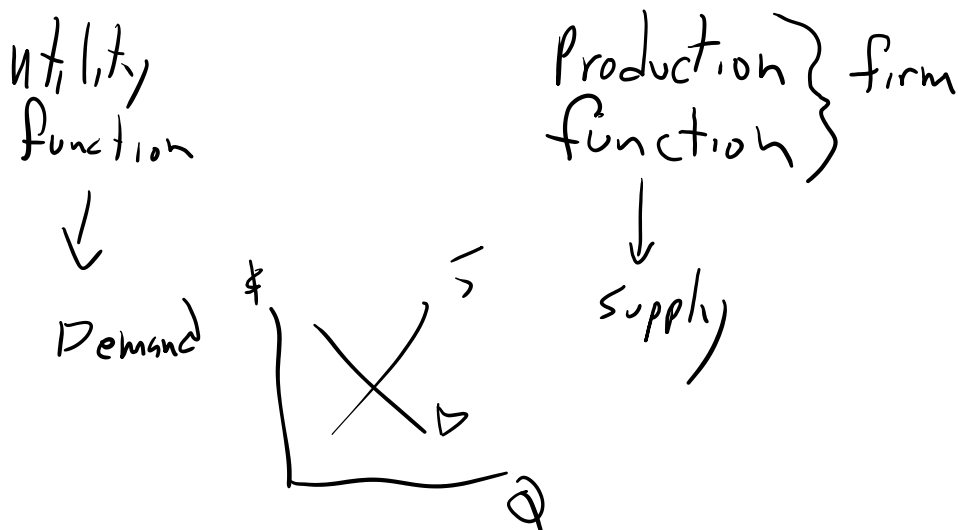


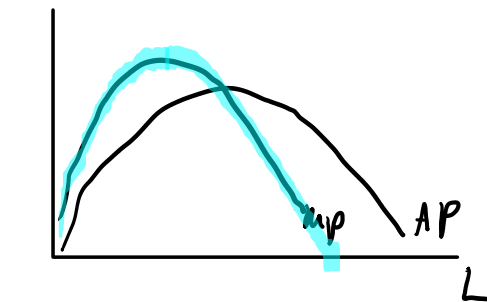
Property Rights Liability + Courts

Neoclassical Economics

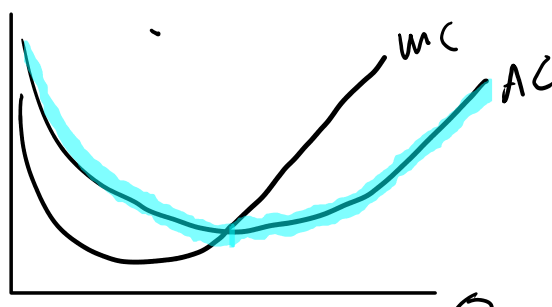


$$MP_L = \frac{W}{P}$$

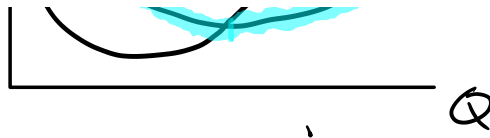
Shape of
these curves
based on
Technology



Picture
of the
firm

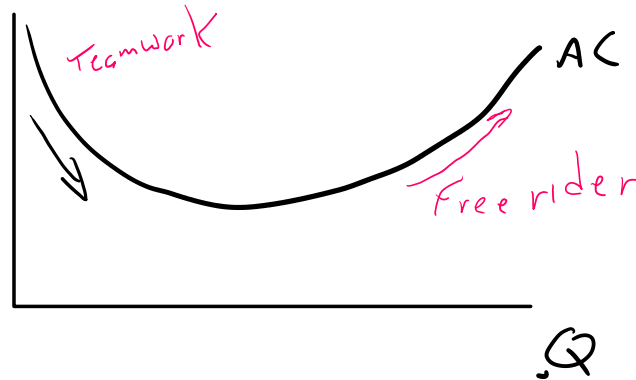


firm



Property Rights
Paradigm

Ronald Coase
Yoram Barzel
Steven Cheung



Ex: 2 people own 1 Truck
Partners - share costs equally (\$4/\$6)

Person 1 Drives Day
Person 2 Drives Night
Deliveries / Pick ups

Person 1 ↑ his Revenue by \$60
if he drives harder

↑ costs of maintaining truck
by \$100

since costs are shared

(1) sees \$60 Rev
\$50 cost
10

Property Rights (ownership)

3 things

True to { 1. Right to exclude
2. Right to Transfer

True private property {
1. Right to exclude
2. Right to Transfer
3. Right to Derive Income

Capitalism → Property Rights

Borrowing \$

Human - cannot borrow against
future income
VS
missing #2 No slavery)

Firm - can borrow against future
income

North America Pre-European

Eastern N.A. Ontario
 Quebec
 NY state } Mohawk
 Territory
 Huron
 Territory

Mohawks - sustainable
resource mgmt

Food supply: Deer

Prairies

Food supply: Buffalo / Bison

We will change our Rules
as the costs of enforcing
Rights change

California gold rush 1840's

Gold mine

- Difficult line of work

→ claim jumpers - steal spots by
force

Gold mine co. Hiring security

each company had a small Army
all profit was spent on army

Cost of enforcing property rights
was too high

→ Become a state

Govt. → Taxes

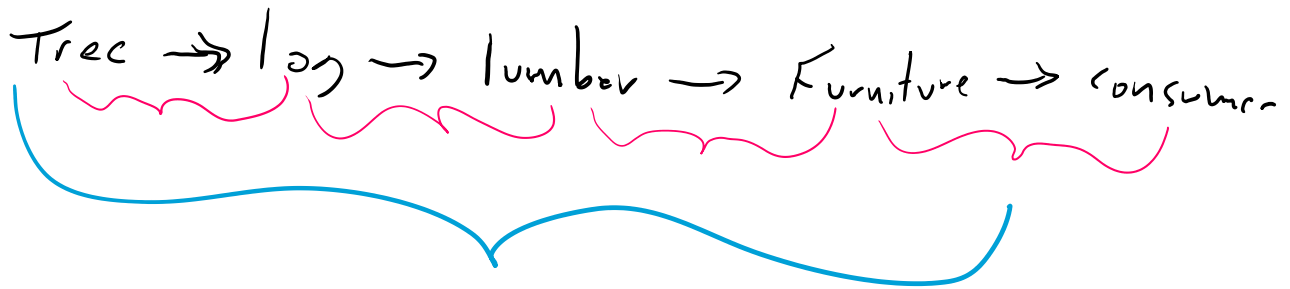
But Govt supplies security

Ronald Coase Nobel prize in economics

2 papers

1932: Theory of the firm

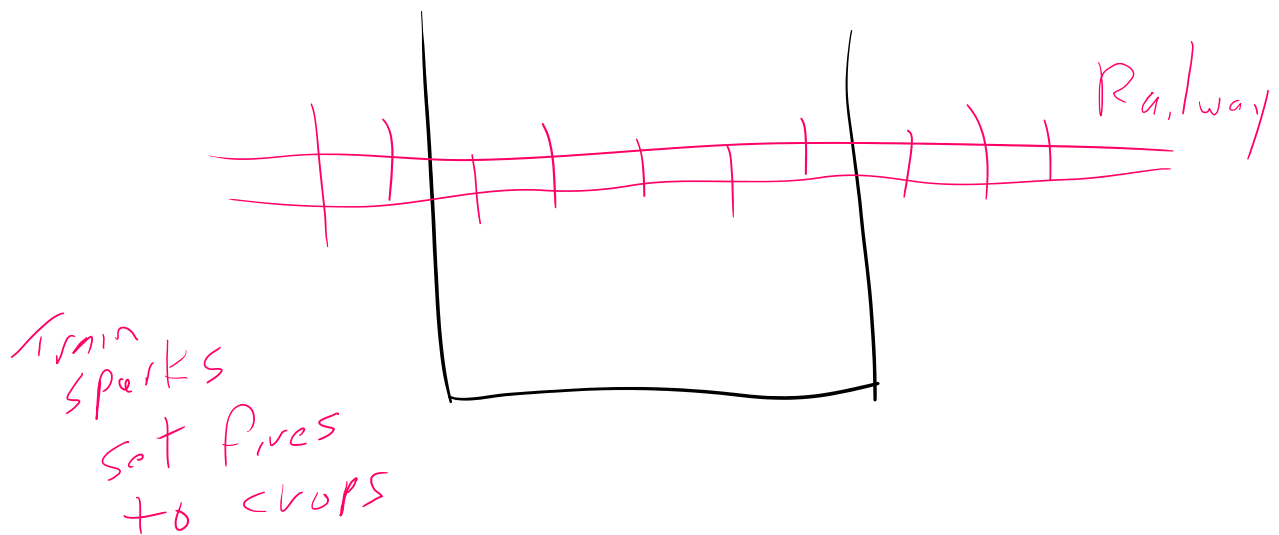
1960: Problem of social cost



Social Cost
1800s Railway across USA
open access to markets

Farmers in Midwest → crops → New York

problem plot of farm land



Suppose

Suppose

A does an activity
that hurts B

B goes to court and seeks protection

Cosse points out that protecting B
will hurt A

Problem of incompatible use
due to lack of defined property
Rights

Further, courts should assign
the right to A or B, doesn't
matter which one

chemical
factory (C)

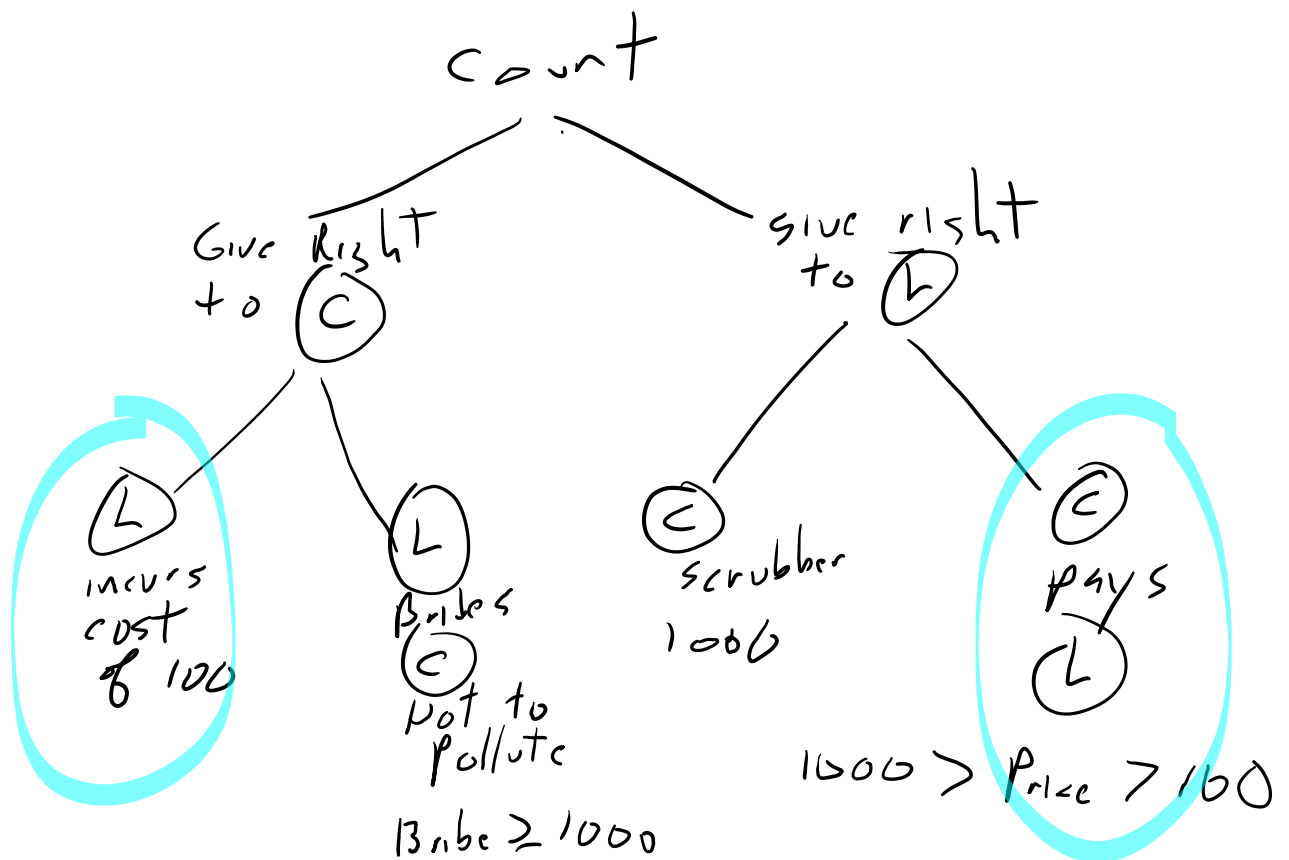
Laundry
service (L)

Emissions from (C) damage (L)

Damage = \$100

one solution is a scrubber
(filter)

(C) can install a scrubber and
then no Damage to (L)
cost = 1000



The only issue is one of
Distribution

For this to work

(C) and (L) must be able to
negotiate

negotiate

Zero Transactions

- small number of Parties
- information costs are low
- measurement costs are low

Problem of large number

100 Laundries, each losing \$1
due to (C)

court finds in favor of (L)

(C) offers each (L) \$5

each (L) makes \$4 profit

Total cost for (C) should be \$500
(half the cost of scrubber)

→ (C) negotiates with the first 99
and pays out \$495

100th laundry sees an opportunity
asks for \$500

says to (C) ...

Says to (C) $495 + 500 = 995 < 1000$

Holdup problem

court may give the right to (C) if, court thinks bargaining won't happen

Coase Theorem

Decentralized policy

Liability laws - create the outcome of Coase

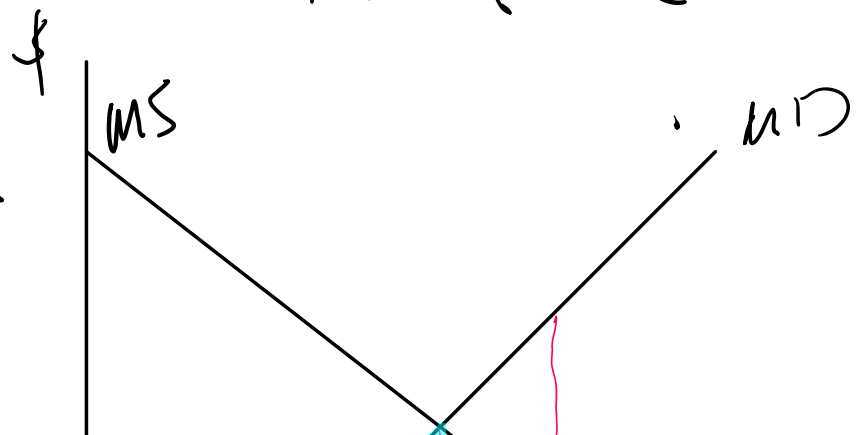
2 Types

- strict liability Pedestrian vs Auto

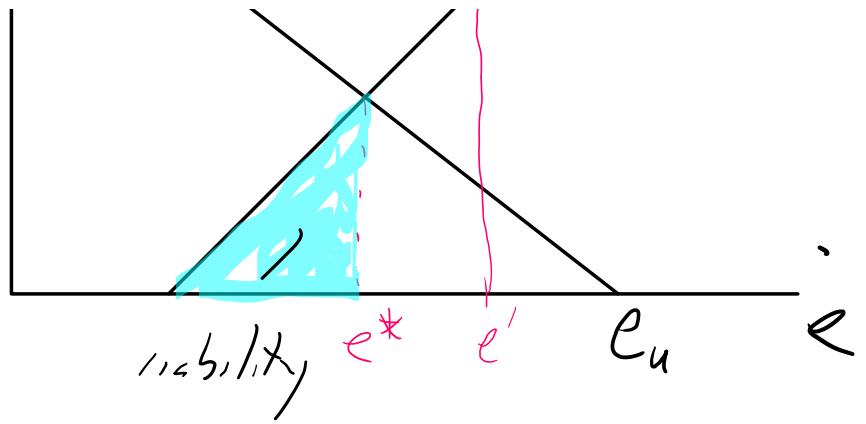
- Negligence

Due Care level of care

Liability firms can pollute but pay any damage



any damage



form of
Negligence

if $e \leq \bar{e}$ Don't have to pay
but for any $e > \bar{e}$ liable

If $\bar{e} = e^*$
then correct
Negligence
Rule

