

PhD Course in Law and Economics, November 2016

Course Schedule:

Day 1:

The morning sessions of the first day introduce basic concepts from game theory and from law and economics, based on mainly *Analytical methods for lawyers chapter 2, p. 34-117*. (Chapter 1 should be read but will not be addressed in class).

The purpose is to acquaint the student with game theory, including the concept of Nash-equilibrium, prisoner's dilemma, moral hazard, adverse selection, basic theory of bargaining, and the theory of contracts.

Morning sessions:

1) 9am - 9.45 am:

Nash-equilibrium, the prisoner's dilemma (table 2-2), and the litigation game (p. 34-50). The theory is briefly explained; then we discuss a set of problems in the litigation game, handed-out in advance. This will be a group work, and one group shall briefly present its results in class. (Lecturer: HL)

2) 10.00 - 10.45 am:

Moral hazard (p. 50-55) and Shavell, chapter 2. We discuss (in plenum) an example from Shavell's textbook on tort law, (*The economic theory of accident law, Chapter 2, page 5, table 3*), which can be used to illustrate the role of hidden acts when discussing the shortcomings of the negligence rule). The example is also discussed in groups. (Lecturer: GN)

3) 11.00 am - 11.45 am:

The first session of student presentations. These sessions are organized as follows:

- a) Each participants presents, in ten or fifteen minutes (dependent on attendance), his or her research question, and formulates also who the 'players' (the main actors) are, what their preferences are, and what strategies they can choose.
- b) After each presentation we briefly discuss its game theoretic formulation, and the possibility of applying game theory to the main theme.

4) 12 am - 1 pm:

Adverse selection, bargaining under asymmetric information and signaling/screening(p. 55- 62). A simple example of screening is analyzed in the context of insurance. (Lecturer: HL)

Lunch 1pm - 2pm.

Afternoon sessions:

5) 2 pm - 2.45 pm:

Second session of student presentations organized as described above.

6) 3 pm - 3.45:

Contracting (p. 62- 117). The note on the Coase theorem (by HL) illustrating the Coase-theorem, is discussed in groups and in class. (Lecturer GN).

Day 2:

The second day introduces modern behavioral theories.

The following two articles (not required readings) will form the background of a presentation by HL of a new theory of interdependent preferences, and especially reciprocity.

1. Interdependent preferences and reciprocity, Joel Sobel, Journal of Economic Literature, Vol. XLIII (June 2005), pp. 392-436
2. Incorporating Fairness into Game Theory and Economics, Matthew Rabin, The American Economic Review, Vol. 83, No. 5 (Dec., 1993), pp. 1281-1302

Morning sessions:

7) 9am - 9.45 am:

Modeling interdependent preferences. We go through some of the main parts of the text by Sobel. We skip section 3.3. and emphasize the example 1 on page 406, illustrating Rabin's model. (Lecturer: HL)

8) 10.15am - 11 am:

Third session of student presentations organized as described above.

9) 11.15 am - 12 am:

A debate on the role of fairness versus efficiency, and ex-ante versus ex-post evaluations, in law. Students self-select into two groups: one that views efficiency and the other which views fairness as the main concern. Based on real world examples, the two groups prepare coherent arguments in favor of their views.

The arguments are presented and discussed in class.

12.15 am – 1 pm: The Benabou-Tirole model of beliefs as assets (a model of identity).
The article is not required reading but its main ideas will be presented in class.
(Lecturer: HL)

Lunch 1pm – 2pm.

Afternoon sessions:

10) **2 pm – 2.45 pm:**

Third session of student presentations organized as described above.

11) **3 pm – 3.45 pm:**

A summary of the course's main points. (HL and GN)