

**GUJARAT NATIONAL LAW UNIVERSITY  
GANDHINAGAR**

Course: Introduction to Law and Economics  
Semester- VI (Batch: 2020-25)

**End Semester Examination: May 2023**

**Date: 12<sup>th</sup> May, 2023**

**Duration: 3 hours**

**Max. Marks: 50**

**Instructions:**

- Read the questions properly and write the answers in the given answer book.
- Do not write anything on the question paper.
- The respective marks for each question are indicated in-line.
- Indicate correct question numbers in front of the answer.
- No questions or clarification can be sought during the exam period, answer as it is, giving reason, if any.
- Illustrate with diagrams, equations and matrices wherever applicable.

**Part: A**

**Marks**

(Answer **any one** of the following questions)

- Q.1 The vaccine manufacturer ARKON (A) pollutes a nearby commercial greenhouse TREES (T). A could eliminate their pollution by installing special scrubbers (cleaning equipment) at a cost of 200. Similarly, T can eliminate pollution by installing filters on its ventilation system at a cost of 300. A's profit without scrubbers is 1000. T's profit is 500 with no pollution (and not installing filters), and 100 with pollution (no filters or scrubbers). Hence, in the absence of filters and scrubbers A's pollution reduces T's profits by 400. (11)
- a) Suppose A has the right to pollute and assume that high transaction costs precludes a cooperative solution. What is the non-cooperative equilibrium?
- b) Suppose a court entitles T compensatory damages from A if A pollutes without installing scrubbers (A only has to pay damages if A does not install scrubbers and T does not install filters). Find the new non-cooperative equilibrium. Compare the efficiency of this equilibrium to that stated under the situation described in a) given above.
- Q.2 Explain the Coase, Normative Coase and Normative Hobbs theorem by applying to property law along with relevant examples. (11)

**Part: B**

(Answer **any three** of the following questions)

- Q.3 Illustrate and explain how a "rational embezzler" chooses how much money to embezzle by applying the maximization problem and the marginal conditions. Further demonstrate how the amount of money embezzled varies with the expected punishment. Finally explain why a "zero tolerance for embezzlement" generally is an inefficient policy. (10)
- Q.4 Explain the internalization problem under strict liability and no liability rule in case of bilateral accidents and how the rule of negligence provides efficient incentives to address the same. (10)
- Q.5 Explain with examples the economic rationale behind determining the efficient breadth of patents and examine the economic critique of the non-obviousness clause as applied in patent Law. (10)
- Q.6 Maruti Motor Company planned to equip its new line of cars with skid proof tires. However, Maruti conducted several crash tests prior to releasing the new line of cars and found that the tires increased the chances of rollovers during crashes, and in turn, the (10)

expected fatality rate. Maruti's economists determine that it would cost Rs. 600 to put rollovers proof tires on each new car. Doing so would reduce the probability of death in a car accident by .0003. Currently, the value of life used in calculations by the court system and the government is Rs. 3 million. If Maruti does not put rollovers proof tires on the new line of cars and there is a deadly car accident, would they be negligent under the Hands rule. Why?

- Q.7 The problem of rising inequality has been studied by Thomas Piketty for the period of 1700 to 2015. Discuss the economic policies and the laws implemented in the major developed world that were responsible for the inequality. (10)

**Part: C**

- Q.8 Write short notes on (**Any Three**) (3x3=9)
- a) The difference between contributory negligence and comparative negligence in terms of distributive effects.
  - b) The first law of deterrence and the importance of elasticity.
  - c) "If burglars correctly believe that many people in your neighborhood keep guns then explain how might this fact increase your security and how might this fact endanger you?"
  - d) The difference between private goods and public goods.
  - e) The concept of interdependent utilities as a measure of causation in tort.

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