GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR
Course: **Introduction to Law and Economics**
Semester-VI (Batch: 2013-18)

Mid Semester Test: Feb-Mar. 2016

Date: 5ᵗʰ March, 2016
Duration: 2 hour   Max. Marks: 30

Instructions:

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

		Marks

Q.1   Answer **any five** of the following questions in brief along with diagrams, wherever applicable.   (5x2= 10)
- (a) Explain and give examples of the Positive and Normative approach to Law and Economics.
- (b) What should be the efficient rule when law is unable to reduce transaction cost?
- (c) Why does the price in a duopoly not reach the levels of a competitive market nor maintain the monopoly price.
- (d) Explain the effect of a minimum wage set above the equilibrium wage rate on the labor market.
- (e) In the case of noise pollution created by a wind turbine, apply efficiency principle to explain when should the turbine be shut down.
- (f) Give examples of high and low transaction costs witnessed during exchange of property rights.
- (g) How does information, (both public and private) determine the reasonable terms for cooperation.

Q.2   Answer **any five** of the following questions in detail along with diagrams.   (5x4= 20)
- (a) Explain Gary Becker's economic model of a marriage market and explain the distributional effects of divorce.
- (b) Explain how the protection of property and the ability to transfer property promote social welfare?
- (c) Explain that the efficiency of the legal rule "Rancher's right" is apparent and not real, given low transaction cost.
- (d) Explain with examples how can law increase efficiency (given high transaction costs) by lubricating bargaining.
- (e) Derive the Edgeworth box diagram and demonstrate Pareto improvement and Pareto optimal position.
- (f) In the example (Electric company and Laundry), explain profits from bargaining under three legal rules of, Polluter's right, Pollutee's right to damages and Pollutee's right to injunction.
- (g) Explain how subsidy addresses the problem of suboptimal production for a good having positive externality.

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