

Course Syllabus-Law and Economics: Why Should We Obey? Analyzing Incentives in Business

Language of Instruction: English

Professor: Lela Mélon

Professor's Contact and Office Hours: lela.melon@upf.edu, upon agreement

Course Contact Hours: 30 hours

Recommended Credit: 4 ECTS credits

Weeks: 2

Course Prerequisites: It is advisable for the students to have some basic microeconomic notions and those of game theory. Substantial prior legal knowledge is not needed, as the details of rulemaking will be elaborated upon in the class itself. What is advisable is to be aware of the contentious developments in the corporate world.

Language Requirements: B2 level of English as a minimum

Course Description:

As students are often familiarized with economic models and predictions as well as theories, it turns out that applying that knowledge to the real world and finding the shortcomings of the presented models in the contemporary business environment is not self-evident and that students need some support in putting the knowledge in action. This is precisely what the course offers to help them with using the knowledge they have already obtained, and the knowledge offered by this course in their professional and private lives.

The course objective is to analyse the incentives created by laws and legal institutions, as well as their implications for economic activity in a globalized world. Microeconomic models will be used to conduct positive and normative analysis of certain legal rules and complement the analysis with real case studies.

The focus of this course will be on how legal rules affect (i) implicit prices for consumer and firm behaviour, (ii) the distribution of resources, and (iii) economic efficiency. While students will obtain a background on the law surrounding property, contracts, torts and the judicial process, the content will focus on how legal rules impact consumers and producers, and whether these rules and regulations enhance the efficient use of economic resources.

Moreover, in order to understand better the functioning of the modern markets, the role of the companies according to the EU and the US law will be taken a look at, together with the analysis of the so-called shareholder primacy principle and the incentives and practical implications of such principle. Specific corporate cases will be presented and analysed.

All of these theoretical concepts will then be studied on real life cases and assessed through individual works of students with the use of 'problem based learning' technique.

Learning Objectives:

Example:

At the end of the course, the student will:

- Be able to analyze the creation of incentives by the legal system in corporate, contract and tort law.
- Understand the major differences in different legal systems (common versus civil law).
- Understand the demands of corporate law for creating different types of companies.
- Be able to analyze the incentives inside the company in to suggest specific internal corporate rules at the organizational level.
- Be able to maximize the value in a company not only for shareholders but also for other stakeholders.
- Be able to change particular legal rules in order to provide the correct incentives for the wanted societal development.
- Be able to analyze critically the decisions of public authorities in the corporate field as well as the corporate officers.

Course Workload

The course is divided into lectures, discussions, and case studies. Students should be prepared to read between 50 to 150 pages per week.

Methods of Instruction:

The course includes lectures, problem-based learning and case studies. Three-hour class sessions are normally divided into one-hour lecture, one-hour of problem based learning and one-hour discussions. During field studies, students are expected to take notes and treat field studies as a normal lecture class.

Method of Assessment

Class Participation: 20 percent

Case Presentation: 30 percent

Final Exam: 50 percent

Absence Policy

Attending class is mandatory and will be monitored daily by professors. The impact of absences on the final grade is as follows:

Absences	Penalization
Up to one (1) absences	No penalization.
Two (2) absences	1 point subtracted from final grade (on a 10 point scale)
Three (3) absences	The student receives an INCOMPLETE for the course

The BISS attendance policy does not distinguish between justified or unjustified absences. The student is deemed responsible to manage his/her absences.

Emergency situations (hospitalization, family emergency, etc.) will be analyzed on a case by case basis by the Academic Director of the UPF Barcelona International Summer School.

Classroom Norms:

- No food or drink is permitted.
- There will be a ten-minute break during the class.
- Students must come to class fully prepared.

Course Contents:

Sessions 1 and 2: Introduction to Law and Economics (Mon, July 4th 2022 and Tue, July 5th 2022)

- Basic concepts
- Ex ante and ex post
- The idea of efficiency
- Thinking at the margin
- The single owner
- The least cost avoider
- Administrative cost
- The Coase theorem

Session 3: Rules and standards (Wed, July 6th 2022)

- Defining rules and standards as the basic notions of legal rulemaking
- Economic analysis of rules and standards
- The role of rules and standards in business

Session 4: Property rules and liability rules (Thu, July 7th 2022)

- The notion of property and the notion of liability
- Practical application of property rules and liability rules
- The economic analysis of property rules
- The economic analysis of liability rules

Session 5: Contracts as instruments for cooperation (Fri, July 8th 2022)

- Understanding the nature of contracts and the supporting role of law
- The different types of contracts
- The rationale for entering into contracts

Session 6: Analyzing the unexpected – Economic Analysis of Torts (Mon, July 11th 2021)

- The notion of torts and their treatment in law
- Common law approach vs civil law approach
- European Union treatment of torts
- New developments in tort law in civil and common law

Sessions 7 and 8: Corporate Law (Tue, July 12th 2021 and Wed, July 13th 2021)

- Shareholder primacy vs stakeholder primacy
- The origins of shareholder primacy
- The practical implications of shareholder primacy
- Sustainable corporate governance and due diligence in the EU
- Case studies of specific companies (accounting for externalities, corporate altruism)
- Corporate sustainability

Session 9: A regulatory challenge – regulating the digital economy (Thu, July 14th 2021)

- The notion of digital economy and its implications for the existing legal systems
- Digital economy in everyday life
- The impact of digital economy on corporations
- Additional regulation of digital economy

Session 10: Recap session and final exam (Fri, July 15th 2021)

- 1.5 hours recap session of the most important notions and topics
- 1.5 hours for the final exam

Required Readings: The professor will assemble a course-pack and indicate mandatory textbooks.

Recommended bibliography:

Students are encouraged to consult the following sources on their own.

Robert Cooter and Thomas Ulen, *Law and Economics*, Sixth Edition (2011 U.S.: Pearson Education, Inc.)

Mitchell A. Polinsky and Steven Shavell, *Handbook of Law and Economics* (volumes I and II) (2007 Elsevier)

David Friedman, *Law's Order: What Economics has to do with Law and why it matters*, http://www.daviddfriedman.com/laws_order/

Nuno Garoupa, Carlos Gomez and Lela Mélon, *Legal Origins and the Efficiency Dilemma*, (2016 Routledge)

Ward Farnsworth, *The Legal Analyst: A Toolkit for Thinking About the Law* (2007 University of Chicago Press)

Kent Greenfield, *The Failure of Corporate Law: Fundamental Flaws and Progressive Possibilities* (2007 University of Chicago Press)

Lynn Stout, *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public* (2012 Berrett-Koehler Publishers)

Stephen Bainbridge, *Corporate Law (Concepts and Insights)* (2015 Foundation Press)

Bethany McLean and Peter Elkind, *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron* (2013 Portfolio)

Avinash K. Dixit, *The Art of Strategy: A Game Theorist's Guide to Success in Business and Life* Paperback (2010 W. W. Norton & Company)

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