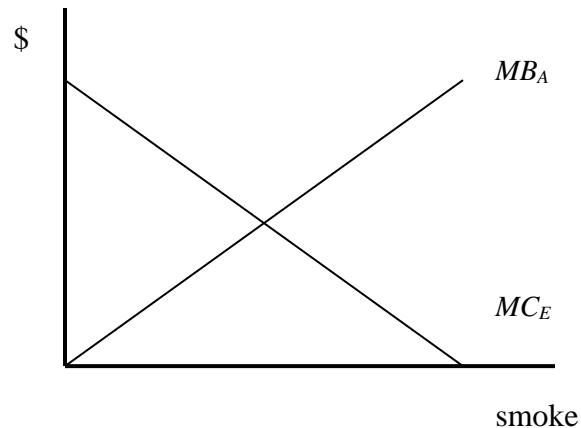


Chapter 1

1. The diagram below shows the marginal benefit to Adam of emitting smoke from his factory, labeled MB_A , and the marginal cost of the smoke to Eve's laundromat, labeled MC_E . According to the Coase Theorem, the optimal level of smoke will be emitted regardless of whether Adam has the right to emit it, or if Eve has the right to be free of it. Use the graph to illustrate this argument.



2. The Invisible Hand Theorem says that markets will achieve an efficient allocation of resources under certain conditions. What are those conditions, and how does the law correct for their absence? Is market efficiency the only objective of laws?
3. Many believe that people who break the law are acting “irrationally.” Do you think this is true? Would such a claim be consistent with the application of economic analysis to the law?
4. Explain why the law is a necessary background institution for the efficient operation of markets.
5. Discuss the following definition of law: “If you want to know the law and nothing else, you must look at it as a bad man, who cares only for the material consequences which such knowledge enables him to predict, not as a good one, who finds his reasons for conduct, whether inside the law or outside of it, in the vaguer sanctions of conscience.” (Holmes, “The Path of the Law,” *Harvard Law Review* 10 (1897), p. 459.)
6. Describe the difference between positive and normative analysis and give an example of each.