Chapter 5

1. The case of *Groves v. John Wunder Co.* (205 Minn. 163, 286 N.W. 235, 1939) concerned a contract requiring the defendant to level some land owned by the plaintiff. The cost of the job would have been $60,000, while the market value of the land after leveling would have only been $12,000. When the defendant breached the contract, the court awarded the plaintiff $60,000 in damages. Discuss this ruling in light of the economic theory of efficient breach. Compare the ruling to that in *Peevyhouse v. Garland Coal & Mining Co*.

2. When Egypt closed the Suez Canal, ships going between the U.S. and the Middle East had to go around Africa, thereby incurring significant added costs. This event was not provided for in shipping contracts, and so ship owners wanted their contracts invalidated on the grounds of impossibility. Did they have a good case?

3. Suppose Moe agrees to sell a house to Larry for $100,000. The value of the house to Larry is $110,000, and the value to Moe is $90,000. After they have agreed to the sale, Curly shows up and offers $120,000 for the house. Moe accepts and sells to Curly. Was there a contract between Moe and Larry? If so, was the breach efficient? In the event of a breach, what would Larry's expectation damages be? Analyze the case if the court invokes specific performance and orders Moe to sell to Larry.

4. Think of marriage as a contract. Should courts make it "easy" to breach the marriage contract (divorce) by allowing either party to do it at will, subject to payment of "damages"? Why do you think some people add a religious dimension to marriage by promising to remain faithful until death?

5. Product warranties that cover the cost of future repairs to a durable good are often voluntary, meaning that consumers have the option to buy them, at an extra cost, at the time of initial purpose. Why do you think some people buy them and some don't? What effect might such a warranty have on the consumer's incentive to exercise proper care in use of the product? How do sellers respond to these incentives?

6. When a tenant vacates an apartment prematurely (i.e., before the expiration of the lease), the landlord can sue for foregone rent. However, he or she also has a duty to mitigate the damages. In what way can the landlord mitigate the damages from breach of the lease? Why is it efficient for him or her to do that?