

Law and Economics (2847)

**Winter Term 2009/10
Final Exam –**

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Solve 3 out of the 4 problems below. Each problem is worth up to 40 points. If you solve more than 3 problems, the first three which appear on your answer sheets will be graded (so make sure to delete clearly and unambiguously what you don't want to be graded).

Usage of textbooks, lecture notes, dictionaries, or programmable pocket calculators is not permitted.

Notes on this exercise sheet will be disregarded during the grading. Give answers exclusively in your working sheets; leave a margin of 3cm. Undecipherable scribbling will not be graded.

Use the terminology and the mathematical tools presented in the lecture and the tutorial; make clear how you derive your results.

1. Among 100 unknown artists, there is just one whose work will later turn out to be successful. Assume that his work can be resold for €100,000 while the other pieces will be worthless.
 - a) Derive the maximum amount an art dealer offers for one piece if he discounts future income with $d=0.6$ and is unable to predict the actual quality. 5 points
 - b) Derive the minimum willingness to accept of an artist who is equally uncertain about his actual success (and discounts with $a=0.4$); derive the cooperation rent and the symmetric Nash bargaining solution. 10 points
 - c) Show that the introduction of a resale royalty (denoted r) decreases the initial income AND the expected lifetime income of the artist. 15 points
 - d) Explain verbally (in general as well as with respect to the example above) why law reforms may lead to "counterintentional consequences". 10 points
2.
 - a) Name the three claims made by the Coase theorem, explain their prerequisites (*feel invited to use numerical examples or figures*). 30 points
 - b) What are the efficiency effects of moderate and of high transaction cost? 10 points
3.
 - a) Explain the concept of "primary, secondary, and tertiary costs". 15 points
 - b) Explain the concept of "transaction structure", make use of examples from tort or contract law. 25 points
4. Who should have the property rights to bonus miles, the employer or the employee? (*Comprehensive discussion required, including the possible uncertainty of the regulator with regard to one side's valuation*) 40 points