

**Aufsichtsarbeit im SPB VI
(Ökonomische Analyse des Rechts)**

Beispielklausur

Hinweise zur Bearbeitung:

- Die Bearbeitungszeit für die Aufsichtsarbeit beträgt 5 Stunden. **Die Prüfungsteile I. und II. sind zu bearbeiten. Aus den Teilen III. bis VII. dürfen Sie vier der fünf Teile bearbeiten.** Sollten Sie alle Prüfungsteile bearbeiten, werden nur die Teile I. bis VI. gewertet.
- Alle Prüfungsfächer werden gleichgewichtet und haben eine Bearbeitungszeit von 50 Minuten. Die Gewichtung innerhalb eines Prüfungsfachs wird ggf. in Prozent angegeben.
- Bitte beginnen Sie jedes Prüfungsfach mit einem neuen Blatt.
- Bitte halten Sie in alle Richtungen einen Abstand von 2 cm zum Blattrand ein. Rechts oder links sollte der Abstand ca. 5 cm betragen.

I. Introduction to Economics for Lawyers

1. In the market for browser games, firms are producing at zero marginal cost. The consumer demand is described by $Q = 120 - P$. Write down the steps of all your calculations. **(40%)**

- a. Assume that two firms are competing in this market, as the government requires a license to produce and sell browser games. Calculate the quantity of browser games in the market and their price.
- b. Assume that the government decides to liberalize the market and as a consequence no single firm in the market can influence the market price. Calculate the new quantity of browser games and their price.
- c. One producer of browser games has been granted a patent that makes it the only firm able to sell browser games in the foreseeable future. Calculate the quantity of games the firm will sell as well as the corresponding price.
- d. What do the results in a, b, and c tell us about the effect of competition on prices and quantities traded in a market?

2. What are the four basic assumptions about individual preferences? Explain the significance or meaning of each. **(24%)**

3. A politician approaches you and asks you to explain the expected effects of introducing a minimum wage in a competitive market on different social groups (and segments of these groups). Explain the theoretically expected effects on both market outcomes and social welfare, also considering the different levels at which the minimum wage could be set. Sketch a market diagram for each scenario you are discussing to illustrate your argument. **(36%)**

II. Introduction to Law and Economics

1. Aladdin finds a magical flying carpet in the cave. At any given time, only two people can sit on the carpet and use it. However, anyone in the world who says the magical sentence “Carpet Carpet, come to me” can summon the carpet, which will then fly on its own to the person calling. The king learns about the carpet and is trying to decide between two options:

- 1) The Carpet will officially be owned by the kingdom. Any person who wants to use it, must get permission from a special council, made up of 2 dukes and the king itself. The council decides by a majority vote.
- 2) There will be a “carpet registry” – the person listed as the owner is the legal owner. Aladdin is the first person registered, but he can trade as he sees fit.
 - a. Which of these options is preferable from a Law & Economics perspective? **(33%)**
 - b. How would your answer change if the carpet could not be summoned? i.e. anyone wanting to use the carpet needs to physically sit on it **(17%)**

2. In “FakeLand”, there is a digital market for so-called “Surprise Boxes”. Each of these boxes contains either a prize of 100 EUR or a fine of 100 EUR, and there is a 50:50 chance of getting each of these. A person purchasing a box signs a contract beforehand, where he obligates to pay the fine whenever the box contains a fine order. The boxes are sold by “Boxes Inc.”, a private company. There are no other competitors. The government is concerned that people are buying too many boxes and turns to advisors, asking what to do about this and get the following answers:

- 1) Advisor 1: There is no justification for intervention in this case, because the expected value of the box is zero anyway.
- 2) Advisor 2: We should intervene because Boxes Inc. is a monopoly. We can then make sure they sell less boxes than they would have otherwise.
- 3) Advisor 3: We should intervene because of the information asymmetry – people don’t know what is in the box, and therefore we should protect them by prohibiting the sale of the boxes.

Discuss whether the three advisors are right from a Law & Economics perspective. Is there a different economic reason for intervention, not mentioned by the advisors? **(50%)**

III. Economic Analysis of Judicial Organisation

The optimal design of procedural rules of the judiciary has been controversially discussed.

- a. Name and briefly describe no more than five formal procedural rules frequently discussed **(25%)**
- b. Describe two competing views regarding the economic effects of judicial formalism and evaluate their strengths and weakness **(38%)**
- c. In one study, high levels in the presumption of innocence have been correlated with lower growth rates; name at least one possible reason behind this finding **(25%)**
- d. If high levels in the presumption of innocence were to cause lower growth rates, would that be sufficient to tinker with these rules? **(12%)**

IV. Economic Analysis of Constitutional Law

In surveys carried out among the adult population of Germany, among 2/3 of all people surveyed are in favor of mandatory vaccination against the coronavirus.

- a. Please name two tools of direct democracy and describe them **(25%)**
- b. Describe possible ways in which direct democracy tools could have an impact on policy outcomes **(38%)**
- c. Given the above-mentioned survey results: who would have an interest in putting the issue to a direct democracy tool? **(12%)**
- d. Should the above-mentioned issue be made subject to a direct democracy vote? Try to come up with at least one argument in favor, and one argument against **(25%)**

V. Economic Analysis of Civil Liability in Contract and Tort Law

What justifies the judicial review of general terms and conditions (GTCs) from an economic point of view? What are the main justifications given from the legal literature? What are the consequences of both views?

VI. Corporate Governance

According to a recent reform in German law concerning the appropriateness of executive compensation, stock options may only be exercised after four instead of two years. Discuss this new rule against the background of the principal-agent theory.

VII. Corporate Finance

The Federal Reserve (Fed), the central bank of the United States (US), announced in January 2022 that it was preparing to raise interest rates in March 2022 for the first time since the coronavirus pandemic struck the US. At a press conference on 26 January 2022, the Fed chair, Jerome Powell, said the central bank would continue to monitor the course of the pandemic, inflation and unemployment but gave his clearest signal yet that the US's historically low interest rates would start to rise soon. Based on such announcement, what impact do you expect on a company's investments in US bonds? In your answer, please inter alia refer to a bond's characteristics, such as the bond maturity and the coupon rate.

THE END