SAMPLE LAW/ECON FIELD EXAMS
Field Examination in Law and Economics
Jurisprudence and Social Policy

Directions
This is a three hour examination. Please answer both questions.

Questions
1. Suppose that the current law of liability for a particular class of accidents is a common law rule of negligence. A court is contemplating changing the law to strict liability. One of the judges is concerned about the economic consequences of this change. He would like an account of the differences in the effects of the two rules on incentives and on risk allocation. He is cognizant of the fact that some potential injurers and victims are corporations, and others are ordinary citizens. Accidents sometimes arise from lapses by decision makers of both types, rather than from carefully calculated acts. The judge wonders whether this makes a difference in terms of deterrence. Another judge on the court is concerned about whether the court would have enough information to choose the efficient rule if that were it objective.

You are a clerk with training in economics who has been asked to draft a memorandum on this subject. Explain the differences in the incentive effects, risk allocation, and information requirements for lawmakers who wish to create efficient incentives by a rule of strict liability as opposed to a negligence rule.

2. The theory of market failure and the theory of government failure (or regulatory) are complementary to each other. Explain the broad outlines of each theory and their interrelationship. To illustrate your explanation, pick a concrete example of a regulated industry with *imperfect information* (e.g. drug industry, medicine, hazardous consumer products, insurance, etc.). The example should be one in which the information assumptions of perfect competition are not satisfied and there is regulation. Explain how the theory of *market failure* applies to your example. In the absence of regulations, would the efficiency loss be large or small? Explain how the theory of *government failure* applies to your example. Are the regulators trying to correct the market imperfection, create monopoly profits for the industry, keep themselves employed, or something else? Are the regulators captives of the industry? Why do the regulators do what they do?