

Law and Economics Exam Spring 2011

Klick

Rules: You have 24 hours from the time you pick up this exam to turn it in, but it must be turned in by 5 p.m. on May 1, 2011 at the latest. This exam consists of two questions and a third element where you choose to either count one of your answers double or to have each of the first two questions count for the same amount toward your final exam grade. You may consult any class notes, as well as any law and economics or economics textbook/treatise, but you may not use internet resources (except Friedman's webbed textbook) or published journal articles in completion of the exam. Question 1 allows the possibility of using the internet to familiarize yourself with some background information relevant to the question. There are no length guidelines for the answers. Irrelevant but correct material in your answers will not affect your grade. Irrelevant and incorrect material will count against your grade. It is very unlikely that the longest answers will score the highest (if only because an overly long answer is more likely to contain incorrect material). I am interested in your law and economics analysis, not your ability to regurgitate classic sources (e.g., Posner). Good luck and have a good summer.

1. While most gas stations in the urban and suburban U.S. Northeast are closed when the station does not have an employee present (e.g., late at night) and the pumps are locked, in much of the rural Western U.S. (e.g., Montana) unattended stations still generally allow customers to pump gas, using credit cards for payment. Assume (perhaps counterfactually) that this is not the result of some gas station specific regulatory difference. Use the law and economics framework to discuss legal reasons for this geographic heterogeneity in practice. If you have no familiarity with potentially relevant details about the rural American West, feel free to read Montana's Wikipedia page to familiarize yourself: <http://en.wikipedia.org/wiki/Montana> .
2. A number of commentators have decried the existence of payday loan/title loan operations that provide short term, relatively high interest rate loans to individuals who generally have bad credit, often due to previous loan defaults (and, therefore, have difficulty securing bank loans or even credit card financing). These critics suggest that the high interest rates that accompany these loans compound the borrowers' financial difficulties. Assume that a jurisdiction cannot completely ban these lenders from operating within the jurisdiction and it cannot regulate the loan terms offered, but it can limit the number of payday lenders operating within its borders. Discuss whether, or maybe more correctly the conditions under which, the jurisdiction's residents would be better off with a competitive payday loan industry (where the jurisdiction allows any lender to offer these loans) or a monopoly payday loan market (where a single payday lender is allowed to operate in the jurisdiction) and why.
3. Choose to count either question 1 or question 2 double (i.e., your final point total will be equal to the points you earned on the question you did not choose to double plus 2 times the points you earned on the question you choose to double) or choose to diversify such that each of those questions is weighted equally in determining your final grade (i.e., your final point total will be equal to 1.5 times the sum of the points you earned on question 1 and question 2). Make your choice clear, or you will lose 1/3 of the total points available on the exam.