

## Law and Economics II

### Empirical Law and Economics

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**Office Hours:** M: 3-6, W: 1:30-3:30. If you are on the Fairfax campus, feel free to drop by any time or call for an appointment. Email is a good way to contact me. **All students should periodically check their GMU email account for important information.**

**Abstract:** The theory of law and economics exploded in the 1970s and 1980s and today is a well accepted approach to law adopted by all the major law schools in the United States. In the past 15 years greater attention has focused on testing, illustrating and expanding the theory with empirical methods. In this class we will do two things. First, we will review and explain some important techniques in econometrics that are widely used in empirical law and economics. Second we will examine empirical studies of property law, divorce, torts, crime, discrimination, and the effect of law on freedom and economic growth. Attention will be paid to research methods as well as to substantive conclusions and open areas for more research.

### Grading

Your grade will be determined by a midterm, homework, class participation, presentation and a paper according to the following division.

Midterm: 30%  
Homework: 20%  
Class Participation: 5%  
Presentation: 15%  
Paper: 30%

My personal grading scale is as follows. Note that sometimes the university does not allow certain grades such as Ds – in which case you will receive the next highest

grade below D. Plus-Minuses for B through D grades, where allowed by university policy, will occur at the upper and lower 2.5% level. For example, 70-72.49 will be B-, 72.5-77.49 B, 77.5-79.9 B+ and so forth.

A+: 90%+  
A: 85-89%  
A-: 80-84%  
B: 70-79%  
C: 60-69%  
D: 50-59%  
F: 50% -

There will be no final exam. Ideally, the paper will serve as a draft for a dissertation chapter and eventually a publication. I am looking for a 10-20 page, well-written empirical paper in law and economics, a theory paper is also acceptable if you explain how the model might be tested. You may work in a group of two or at most three but note that you cannot all have the same dissertation chapter! Papers are due last day of class – no exceptions. You are encouraged to think about topics early and see me for some possible guidance. You will also be required to make a 15 minute class presentation.

**STATA:** All PhD students should have a copy of STATA, the premier package for sophisticated econometrics. If you do not already own STATA GMU has a Grad Plan and you can get a fully functional, permanent license for [STATA 14/IC](#) for just \$198 – this is very cheap!

## **Review of Empirical Methods and Sources of Data**

For econometric review, I used to recommend reading:

Angrist, J. and Krueger, A. (1999) "[Empirical Strategies in Labor Economics.](#)" chapter 23 in Ashenfelter and Card (eds.) Handbook of Labor Economics, vol. 3A.

I still recommend that piece. Now, however, there are also a number of good books on causal inference including in order of difficulty those below. I recommend that you have at least one of these books.

Angrist, J. D., & Pischke, J.-S. 2014. *Mastering 'Metrics: The Path from Cause to Effect*. Princeton ; Oxford: Princeton University Press.

Angrist, J. D., & Pischke, J.-S. 2008. *Mostly Harmless Econometrics: An Empiricist's Companion*. Princeton University Press.

Imbens, G. W., & Rubin, D. B. 2015. *Causal Inference in Statistics, Social, and Biomedical Sciences*. Cambridge University Press.

Tabarrok, Alexander, Eric A. Helland, and Paul S. Heaton. 2010. [The Measure of Vice and Sin: A Review of the Uses, Limitations and Implications of Crime Data](#). In *Handbook On The Economics Of Crime*, ed. Bruce Benson and Paul Zimmermann. Cheltenham, England: Edward Elgar.

Helland, E. and Tabarrok, A. (2003) "[Race, Poverty, and American Tort Awards: Evidence from Three Datasets](#)." *Journal of Legal Studies* 32: 27-58.

Helland, E., Klick, J. and Tabarrok, A. (2005) "[Tort-uring the Data](#)." *Journal of Economic Perspectives*.

Sacerdote, B. 2001. [Peer effects with random assignment: Results for Dartmouth roommates](#). *Quarterly Journal of Economics* **116** 2 (2001), pp. 681–704.

Ho, Daniel, Kosuke Imai, Gary King, and Elizabeth Stuart. 2007. "Matching as Nonparametric Preprocessing for Reducing Model Dependence in Parametric Causal Inference." *Political Analysis* 15: 199–236. Copy at <http://j.mp/jPupwz>

Helland, E. and Tabarrok, A. (2004) "[The Fugitive: Evidence on Public versus Private Law Enforcement from Bail Jumping](#)". *Journal of Law and Economics* XLVII (1): 83-122.

Levitt, Steven (1996) "[The Effect of Prison Population Size on Crime Rates: Evidence from Prison Overcrowding Litigation](#)." *Quarterly Journal of Economics*, v. 111:319-352.

Abadie, A., Diamond, A., & Hainmueller, J. 2010. [Synthetic Control Methods for Comparative Case Studies: Estimating the Effect of California's Tobacco Control Program](#). *Journal of the American Statistical Association*, 105(490): 493–505.

Lee, David S. 2001. [The Electoral Advantage to Incumbency and Voters' Valuation of Politicians' Experience: A Regression Discontinuity Analysis of Elections to the U.S. House](#). NBER Working Paper 8441.

Chen, Keith, M. and Jesse M. Shapiro. 2007. [Do Harsher Prison Conditions Reduce Recidivism? A Discontinuity-based Approach](#). American Law and Economics Review. Vol. 9, No. 1 (Spring 2007), pp.1-29

Manski, Charles and Daniel Nagin. 1998. [Bounding Disagreements about Treatment Effects: A Case Study of Sentencing and Recidivism](#). Sociological Methodology 28: 99-137.

Glynn, Adam. 2009. [Does Oil Cause War Because it Causes State Weakness](#).

Freedman, David (1991) "Statistical Models and Shoe Leather," [Sociological Methodology](#), Vol. 21, 291-313.

## **Coase Theorem**

Farnsworth, W. (1999) ["Do Parties to Nuisance Cases Bargain After Judgment? A Glimpse Inside the Cathedral."](#) 66. *U. of Chicago Law Review*, 373-436.

Hoffman, Elizabeth and Spitzer, Matthew L. (1986) ["Experimental Tests of the Coase Theorem with Large Bargaining Groups"](#) 15 *Journal of Legal Studies*, 149-171.

Ellickson, Robert C. (1986) ["Of Coase and Cattle: Dispute Resolution among Neighbors in Shasta County"](#), 38 *Stanford Law Review*, 623-687.

## **Coase and Divorce**

Peters, H Elizabeth.(1986) ["Marriage and Divorce: Informational Constraints and Private Contracting"](#) *American Economic Review*. Vol. 76 (3). p 437-54.

Friedberg, Leora (1998) ["Did Unilateral Divorce Raise Divorce Rates? Evidence From Panel Data"](#), *American Economic Review*, 88(3). p 608-627.

Wolfers, Justin. Did Unilateral Divorce Laws Raise Divorce Rates?  
A Reconciliation and New  
Results. [http://bpp.wharton.upenn.edu/jwolfers/Papers/Divorce\(AER\).pdf](http://bpp.wharton.upenn.edu/jwolfers/Papers/Divorce(AER).pdf)

Data [here](#).

Stevenson, Betty and Wolfers, J. (2004) "[Bargaining in the Shadow of the Law: Divorce Laws and Family Distress.](#)" NBER Working Paper

## **The Political Economy of Torts**

Helland, E. and Tabarrok, A. (2002) "[The Effect of Electoral Institutions on Tort Awards.](#)" *American Law and Economics Review* 4 (2): 341-370.

Klerman, Daniel. 2007. [Jurisdictional Competition and the Evolution of the Common Law.](#) Working Paper.

Eisenberg, T. and Blume, J. (1998) "[Judicial Politics, Death Penalty Appeals, and Case Selection: An Empirical Study](#)", 72 *South. Calif. L. Rev.* 465-504.

White, Michelle (2004) "[Asbestos and the Future of Mass Torts](#)" *Journal of Economic Perspectives*, vol. 18:2.

Glater, Jonathan. 2005. [The Tort Wars, at a Turning Point.](#) New York Times October 9, 2005.

Stiglitz, Joseph E., J.M. Orszag, P.R. Orszag. 2002. [The Impact of Asbestos Liabilities on Workers in Bankrupt Firms.](#) Sebago Associates.

Manning, Richard (1994) [Changing Rules in Tort Law and the Market for Childhood Vaccines.](#) *Journal of Law and Economics*, 37(1), April 1994, p. 247.

## **How Juries Decide**

Sunstein et al. (2002) "[Punitive Damages: How Juries Decide](#)" University of Chicago Press.

[Mathias, \*Burl v. Accor Economy Lodg.\*](#) Judge Posner's opinion.

Hastie, Reid, David A. Schkade, and John W. Payne. 1999. [Juror Judgments in Civil Cases: Effects of Plaintiff's Requests and Plaintiff's Identity on Punitive Damage Awards.](#) *Law and Human Behavior* 23 (4): 445-470.

Kahneman, Daniel, David Schkade, and Cass R Sunstein. 1998. [Shared Outrage and Erratic Awards : The Psychology of Punitive Damages](#). *Journal of Risk and Uncertainty* 86 (1): 49-86.

Schkade, David, Cass R. Sunstein, and Daniel Kahneman. 2000. [Deliberating about Dollars: The Severity Shift](#). *Columbia Law Review* 100 (4) (May 1): 1139-1175. doi:10.2307/1123539.

Viscusi, Kip and Zeckhauser, R. (2004) "[The Denominator Blindness Effect: Accident Frequencies and the Misjudgment of Recklessness](#)." *American Law and Economics Review*, Vol. 6, No. 1, pp. 72-94.

Anwar, S., Bayer, P., & Hjalmarsson, R. 2012. [The Impact of Jury Race in Criminal Trials](#). *The Quarterly Journal of Economics*, 127(2): 1017–1055.

## **Contingency Fees**

Helland E. and A. Tabarrok. 2003. [Contingency Fees, Settlement Delay and Low-Quality Litigation: Empirical Evidence from Two Datasets](#). *Journal of Law, Economics, and Organization* 19 (2): 517-542.

Brickman, L. 2003a. [Effective Hourly Rates of Contingency-Fee Lawyers](#): Competing Data and Non-Competitive Fees. *Washington University Law Quarterly* 81 (3):653-736.

Tabarrok, Alexander. 2005. [The Problem of Contingent Fees for Waiters](#). *The Green Bag*. Summer 2005: 377-381.

## **Medical Malpractice**

Danzon, Patricia. (200 ) "[Liability for Medical Malpractice](#)." In *Handbook of Health Economics Vol. 1*, eds. J. Newhouse and A. Culyer. Elsevier.

Tabarrok, Alex and Amanda Agan. 2006. [Medical Malpractice Awards, Insurance, and Negligence: Which Are Related?](#) Manhattan Institute, Civil Justice Report, No. 10.

Taragin MI, Wilczek AP, Karns ME, Trout R, Carson JL. 1992. Physician demographics and the risk of medical malpractice. *Am J Med*. 93:537-42.

Kessler, D.P. and M.B. McClellan (1996) [Do Doctors Practice Defensive Medicine?](#) *Quarterly Journal of Economics* 111:353-390.

Kessler, D. and McClellan, M. (2002a) [How Liability Reform Affects Medical Productivity](#), *Journal of Health Economics* 21:931-955.

Kessler, D. and McClellan, M. (2002b) [Malpractice Law and Health Care Reform: Optimal Liability Policy in an Era of Managed Care](#), *Journal of Public Economics* 84:175-197.

## **No Fault?**

Bovbjerg, Randall R. and Sloan, Frank. (1998) "[No Fault for Medical Injury: Theory and Evidence](#)." *University of Cincinnati Law Review*, Vol. 67.

Cummins, J., Weiss, M. and Phillips, R. (2001) "[The Incentive Effects of No Fault Automobile Insurance](#)." *Journal of Law and Economics* 44 (2): 427-64.

Loughran, David S. (2001) "[The Effect of No-Fault Automobile Insurance on Driver Behavior and Automobile Accidents in the United States](#)." *Rand Institute for Civil Justice*.

## **Corporate Law**

Henry Hansmann; Reinier Kraakman. 1991. [Toward Unlimited Shareholder Liability for Corporate Torts](#). *The Yale Law Journal*, Vol. 100, No. 7. (May, 1991), pp. 1879-1934.

Ringleb, Al H.; Steven N. Wiggins. 1990. [Liability and Large-Scale, Long-Term Hazards](#). *The Journal of Political Economy*, Vol. 98, No. 3, pp. 574-595.

Weinstein, Mark I. 2003. [Share Price Changes and the Arrival of Limited Liability in California](#). *The Journal of Legal Studies*, volume 32 (2003), pages 1–25.

## **Crime**

Klick, J. and Tabarrok, A. (2005) [Using Terror Alert Levels To Estimate the Effect of Police on Crime](#). *Journal of Law and Economics*. 48(1): 267-280.



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Drago, F., Galbiati, R., & Vertova, P. 2009. [The Deterrent Effects of Prison: Evidence from a Natural Experiment](#). *Journal of Political Economy*, 117(2): 257–280.

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Levitt, Steven (2004) [Understanding Why Crime Fell in the 1990s: Four Factors That Explain the Decline and Six That Do Not](#). *Journal of Economic Perspectives* v. 18, n. 1 (Winter 2004): 163-90.

Donohue, John and Levitt, Steven (2001) ["The Impact of Legalized Abortion on Crime."](#) *Quarterly Journal of Economics*, (May):379-420.

DiIulio, John J, Jr. (1996) ["Help Wanted: Economists, Crime and Public Policy,"](#) *Journal of Economic Perspectives*, Vol. 10 (1), p.3:24.

Levitt, Steven (1998) ["Why Do Increased Arrest Rates Appear to Reduce Crime: Deterrence, Incapacitation, or Measurement Error?"](#) *Economic Inquiry*, v. 36:353-372.

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Katz, L., Levitt, S. D., & Shustorovich, E. 2003. [Prison Conditions, Capital Punishment, and Deterrence](#). *American Law and Economics Review*, 5(2): 318–343.

## **Special Topics in Crime**

Wolfers, Justin and John Donohue. 2005. [Uses and Abuses of Empirical Evidence in the Death Penalty Debate](#). *Stanford Law Review* (2005) 58:791-846.

Ayres, I. and Levitt, S. (1998) [Measuring the Positive Externalities from Unobservable Victim Precaution: An Empirical Analysis of Lojack](#). *Quarterly Journal of Economics*, 113(1), pp. 43–77.

Donohue, John J. and Siegelman, P. (1998) [Allocating resources among prisons and social programs in the battle against crime](#). *Journal of Legal Studies* 27:1-43.



Glaeser, E., Sacerdote, B., and Scheinkman, J. (1996) "[Crime and Social Interactions](#)," *The Quarterly Journal of Economics*, Vol. 111(2), p.507:48. j j

Miron, Jeff (1995) "[The Economic Case Against Drug Prohibition](#)." *Journal of Economic Perspectives*, v. 9 (Fall):175-192.

Knowles, J., Persico, N., and Todd, P. (2001) "[Racial Bias in Motor Vehicle Searches: Theory and Evidence](#)." *Journal of Political Economy*, February.

Gertler, Paul, et al. (Forthcoming) "[Risky Business: The Market for Unprotected Commercial Sex](#)." *Journal of Political Economy*.

Fisman, Ray (2001) "[Estimating the Value of Political Connections](#)." *American Economic Review*, v. 91, n. 4.

Duggan, Mark and Levitt, Steven (2002) "[Winning Isn't Everything: Corruption in Sumo Wrestling](#)." *American Economic Review*, v. 92 (December):1594-1605.

### **Law, Freedom and Economic Growth**

Shleifer, A. with R. La Porta, F. Lopez-de-Silanes, and C. Pop-Eleches. (2004) "[Judicial Checks and Balances](#)", *Journal of Political Economy*

Daron Acemoglu, Simon Johnson and James A. Robinson . 2001. [The Colonial Origins of Comparative Development: An Empirical Investigation](#). *American Economic Review* 91 (5): 1369-1401.

Daron Acemoglu, Simon Johnson and James A. Robinson. (2004) "[Institutions as the Fundamental Cause of Long-Run Growth](#)".

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West, Mark D. XXXX. "[Legal Determinants of World Cup Success](#)." John M. Olin Foundation Center Paper #02-009.