

Law and Economics



Avinash S. Ganu,

Advocate

B.Sc. LL.M. (Pune), LL.M. In International Economic Law (Warwick,
U.K.)

Sayali Ganu-Dabake,

Advocate

LL.M. (Business Laws), M.B.L., PGDIPRL, LL.M. (Health & Media Laws)

Contracts



❧ Bilateral transactions

❧ Voluntary exchange

❧ Value maximizing exchange

Contract Formation



- Proposal/ Offer
- Acceptance
- Promise
- Consideration
- Agreement
- Enforceability – free consent, lawful consideration,
lawful object
- Capacity to contract – age of majority, sound mind,
not otherwise disqualified
- Contract

Free consent



☞ Consent – agree upon same thing in same sense

Consensus ad idem

☞ Free Consent – not caused by

☞ Coercion

☞ Undue influence

☞ Fraud

☞ Misrepresentation

☞ mistake

Void agreement & Voidable Contracts

❧ Void agreements – not enforceable promise

❧ Voidable contracts – valid if not challenged

Issues in Contracts



- ❧ Uncertainties and risks
- ❧ Bilateral monopoly
- ❧ Opportunism
- ❧ Co-operation
- ❧ Commitment
- ❧ Transaction cost
- ❧ Asymmetric information

Economic Functions of Contract Law

- ❧ Promote co-operation – co-operative games
- ❧ Prevent opportunism
- ❧ Encourage efficient disclosure
- ❧ Prevent avoidable mistakes
- ❧ Allocate risk to superior risk bearer
- ❧ Minimize transaction cost – negotiation & drafting
- ❧ Optimal commitment to performance
- ❧ Optimal reliance

Economic Functions of Contract Law

- ❧ Reduce cost of resolving dispute
- ❧ Interpret efficient terms
- ❧ Protect third parties from external efforts
- ❧ Distributary outcomes
- ❧ Regulatory aspects
- ❧ Foster enduring relationship

Edgeworth Box



Economic Explanation for Exchange

- ↻ Two Goods, Two Individuals, Pure Exchange
- ↻ Initial Endowment Allocation
- ↻ Exchange
- ↻ Final Allocation After Exchange

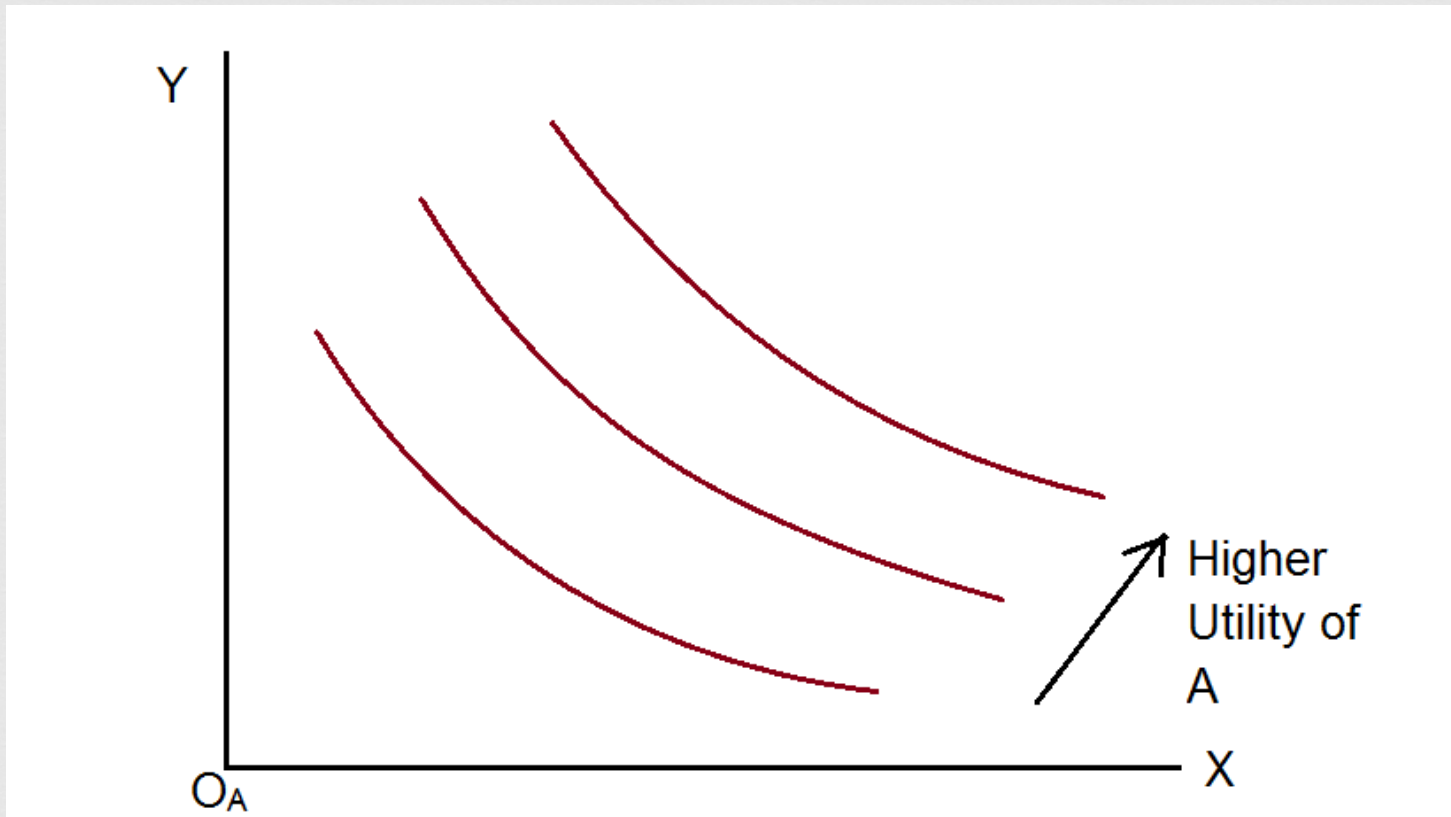


- ∞ Two individuals – A & B
- ∞ Two Goods – X & Y

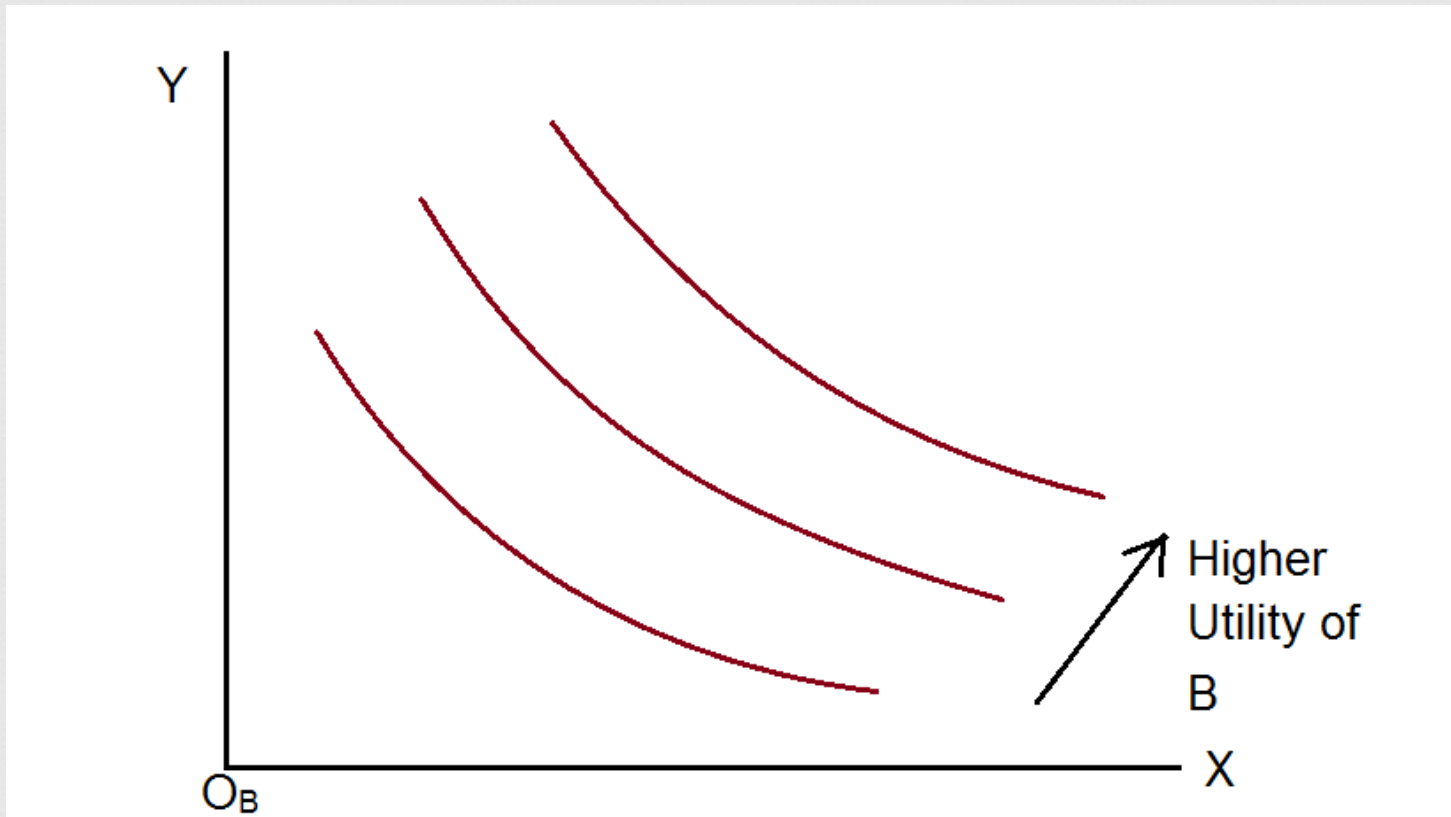
- ∞ Initial Endowment of A (X_A Y_A)
- ∞ Initial Endowment of B (X_B Y_B)

- ∞ Total quantity of X is $X^- = X_A + X_B$
- ∞ Total quantity of Y is $Y^- = Y_A + Y_B$

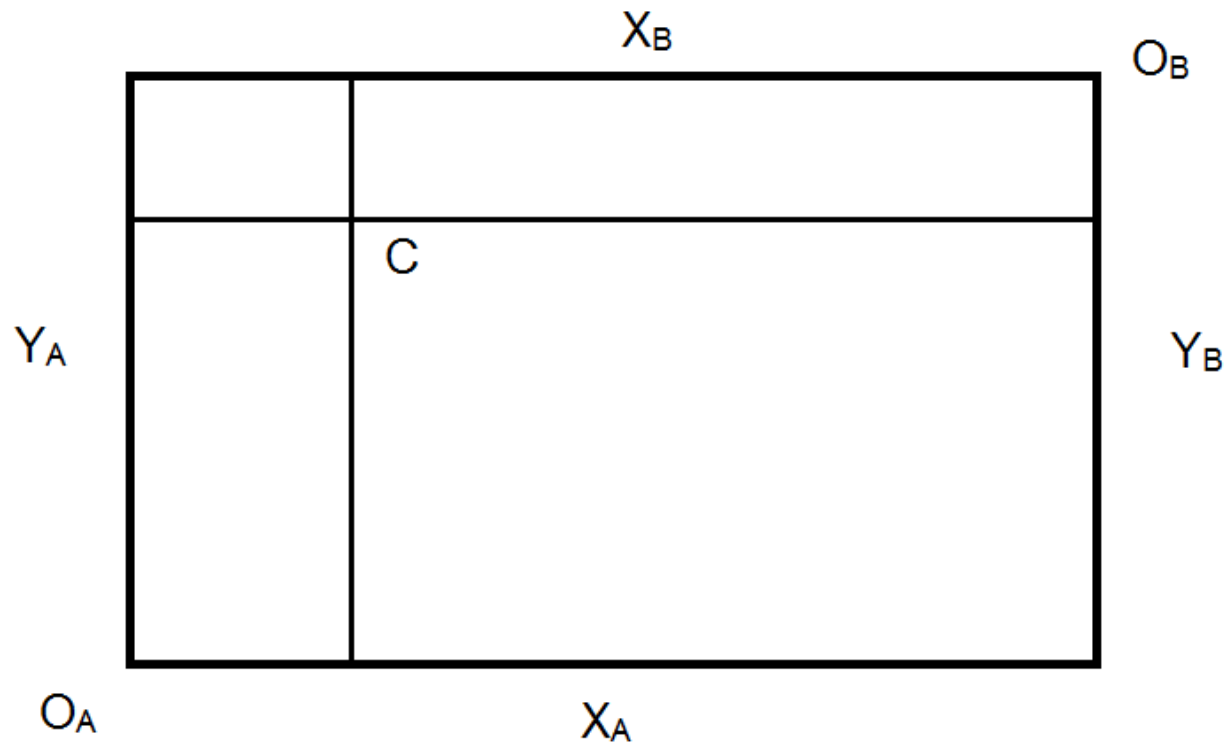
Indifference Curve of A



Indifference Curve of B



Initial Endowment



Contract Curve



- ⌘ A curve consisting of points of tangency of the indifference curves for A, B
- ⌘ All the points on the Curve are equilibrium positions that A & B can reach through exchange