

Homework Set Four Law and Economics

1. Spurr, Chapter 5, problems 5-8.
2. Spurr, Chapter 6, problems 1-2
3. The Constitution of the United States provides that private property shall not be taken for public use “without just compensation”. When the government takes private property, it is said to exercise its right of *eminent domain*. No legal scholar disputes the right of the government to seize land for a military base, though they do debate what constitutes just compensation. There is controversy over what constitutes public use. In a June 2005 decision, the Supreme Court upheld the right of Connecticut, to seize land for resale for a private developer on the grounds that it would enhance the local tax base. This decision was greeted with consternation. Many states are in the process of outlawing the use of eminent domain for such purposes, and there is a bill pending in the House of Representatives which would restrict the ability of states to use eminent domain.

Comment. Does economic efficiency require that states have the right to use eminent domain to assemble large tracts of property for private development? What are the implications of the Coase Theorem say on this subject?

And, you may remember a problem from two weeks ago:

You have now read the Coase Paper, which should qualify you for answering the following problem. Water quality management involves a variety of problems, including but not limited to the following:

- *The Acme Paper Mill is located along Lake Pleasant, along with 1000 vacation homes. What level of effluents should Acme be permitted?*
- *The Able Paper Mill proposes to build a plant along Lake Pushwah, where there are now 1000 vacation homes. Should Able be permitted to build?*
- *The Aster Paper Mill is located along Lake Piquah, along with the 1000 units of the world famous Lake Puquah resort. What level of effluents should Aster be permitted?*
- *The Agway Paper Mill proposes to build a plant along Lake Pesky, which has 1000 vacation*

homes, all of which belong to the Pesky homeowners association. Should Agway be permitted to build?

Devise a process to settle these and similar issues. You are not being asked to come up with a solution. Thus saying "build or operate if the benefits of the paper mill exceed the cost of the effluents" (actually an incorrect solution). Give me a process or law regulating the decision, and show me how it will achieve economic efficiency.

How does your answer reconcile with the answer you gave to this problem? (Feel free to write something like "on reflection, I think I was wrong..."). You should know I saved a copy of your answer to that problem. Your answer should not exceed four pages, typed.