

Point of Contact between Law and Economics

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About Law & Economics

- An analysis of “rationality” of law and social system by means of an economic method
- Economics aims at reducing unemployment and making people affluent.
- Law is a means to establish justice.
 - ⇒To protect “the weak” like tenants, workers, debtors, etc.
 - ⇒To induce an incentive in people for changing their behavior
- It’s necessary to enact laws taking account of corporations that evade regulation and of individuals who experience behavioral changes.(legal policy discussion)
- Law and economics are closely connected with one another for studying society.
 - ⇒ To build a “close relationship” between law and economics.

A person looking for something under a streetlamp



Source: http://commons.wikimedia.org/wiki/File:Ujazdowskie_lampa.jpg

Lineup of Lecture “Law & Economics”

① Role of market economy

- Need for market trade (the principle of freedom of contract)
- Social costs of protective trade
- Correction of pollution (external diseconomies) making efficient use of a marketplace

② Urban and housing regulations

- Peak load pricing of railways and roads
- Influence of the Land Lease and House Lease Law

③ Labor market regulations

- Significance of dismissal regulations
- Significance of tightening regulations on manpower dispatching

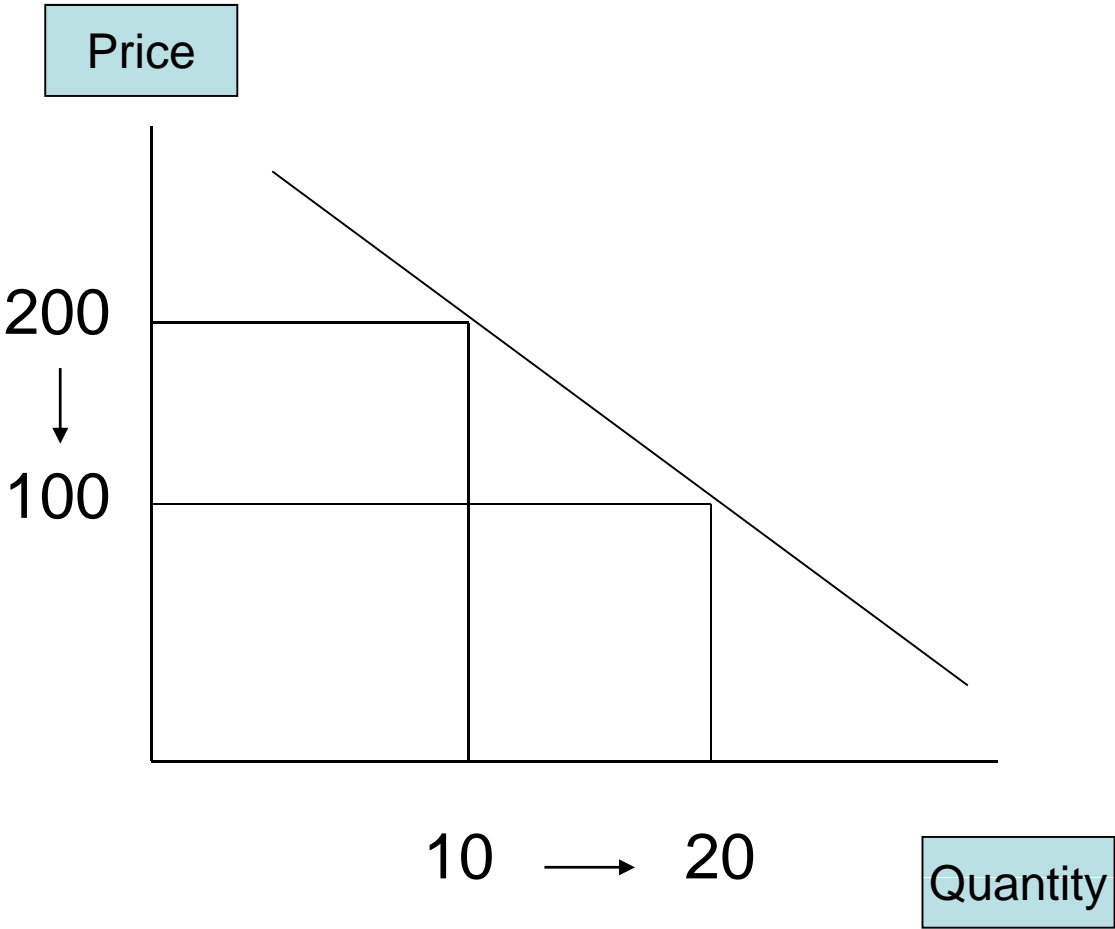
Concept of “Pareto Efficiency”

- “Inefficiency” means a “situation where an individual benefit can be improved within the limits of not damaging other’s benefit.”
- The situation where there is no such room for improvement is “Pareto efficiency.”
 - ⇒ In other words, “to pay maximum regard to individual freedom provided that no inconvenience is put to others.”
- In a competitive market, Pareto efficiency can be realized through free trades by corporations and individuals.
 - ⇒ Need for market trade and liberalization of trade

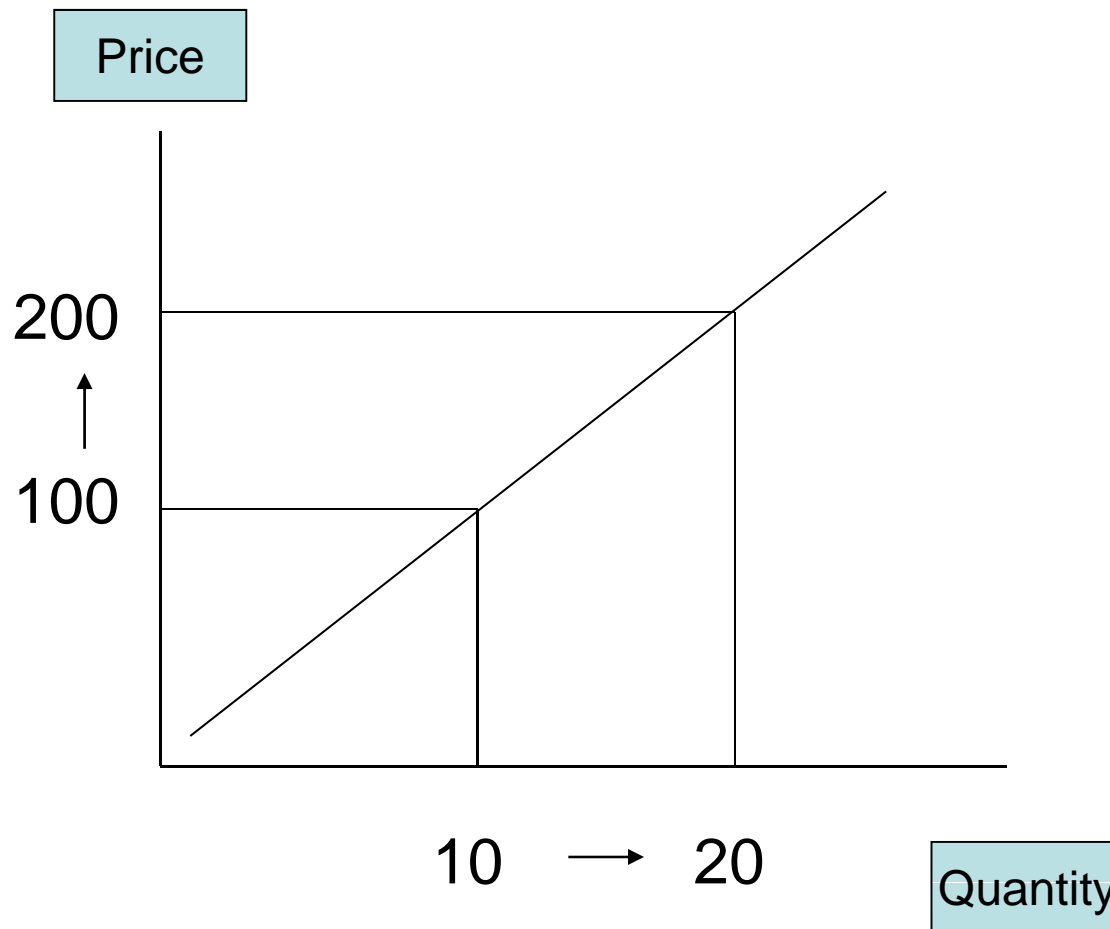
Implication of Hotel's "Check-in Time"

- In Japan, "Time for admission to the room" (No admission till 3:00 pm)
 - ⇒ Is it unfair that a specified guest uses a room for a long time?
 - Uniformity of service = Concept of fair service
- In the West, "Guarantee on the time for admission to the room" (Definite admission at 3:00 pm)
 - ⇒ Assuming diversity in needs of hotel users
 - Rooms after cleaning are "sunk cost."
 - The criterion for evaluating the quality of service is to guarantee maximum leeway to an individual as long as no inconvenience is put to other guests.

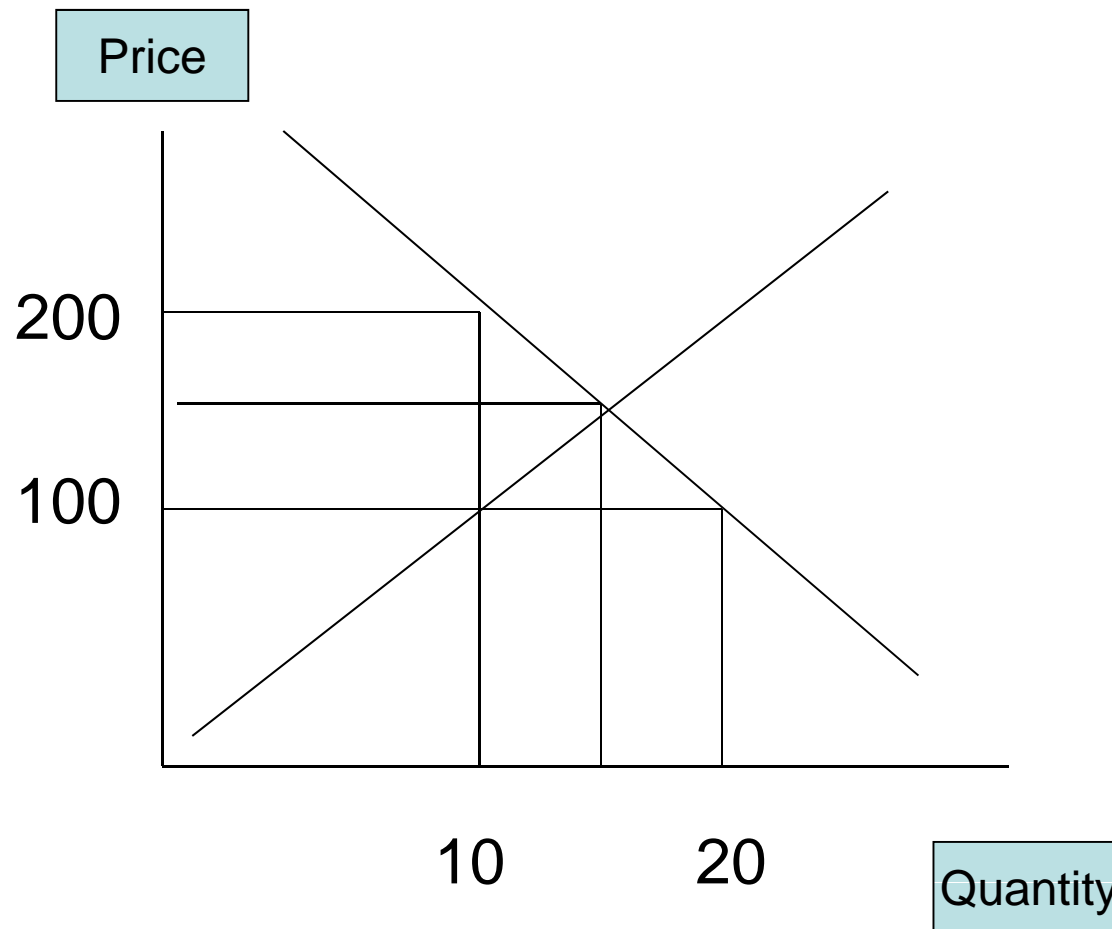
Demand curve is the combination of an amount demand that varies in response to a given price.



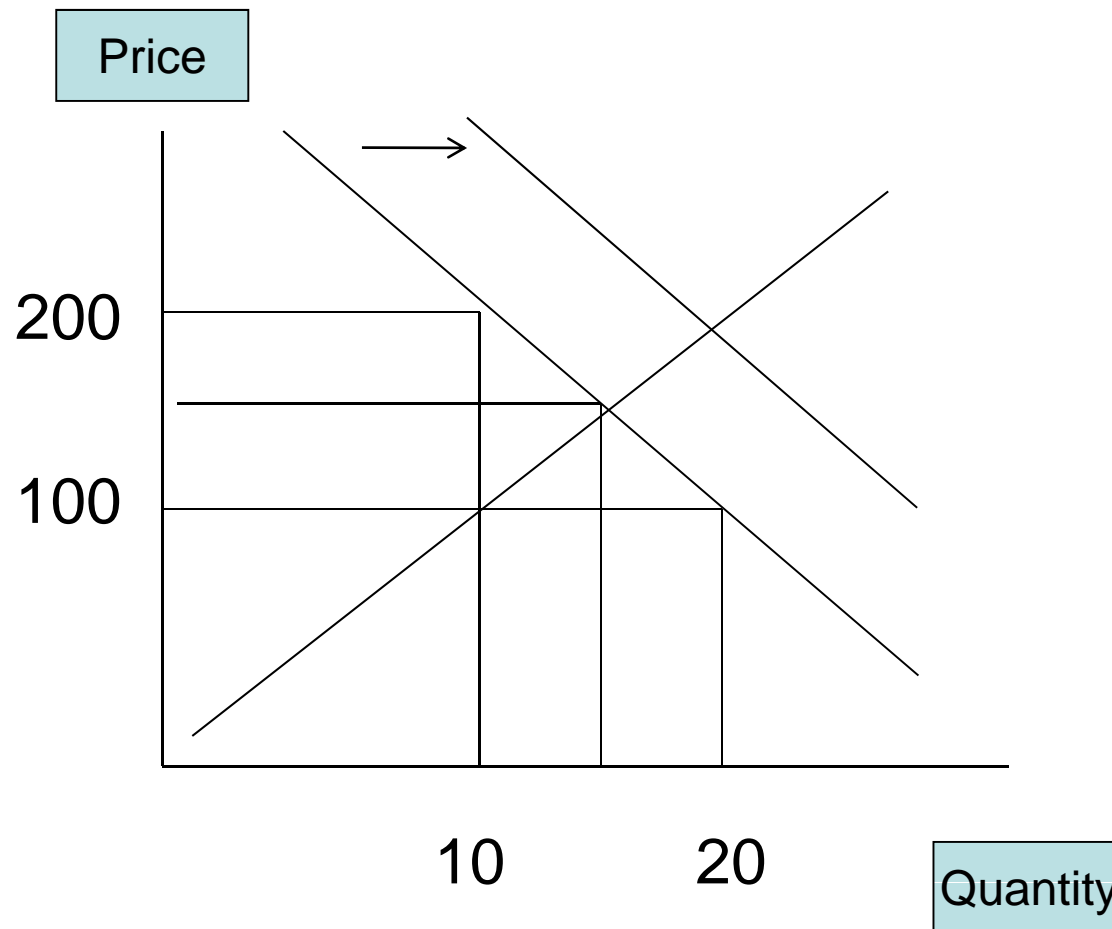
Supply curve is the combination of an amount supplied that varies in response to a given price.



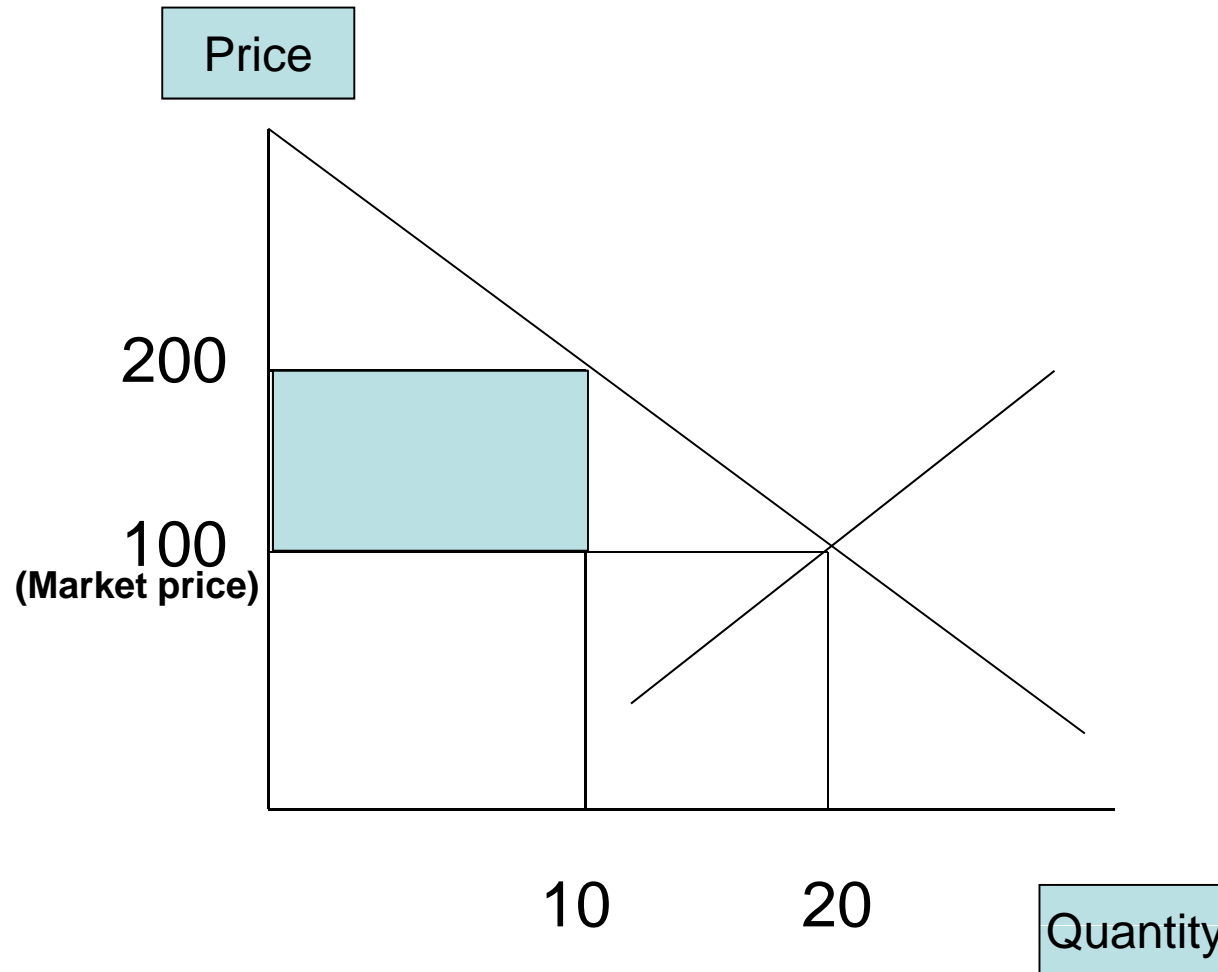
Market price and quantity are determined at the point where demand crosses supply.



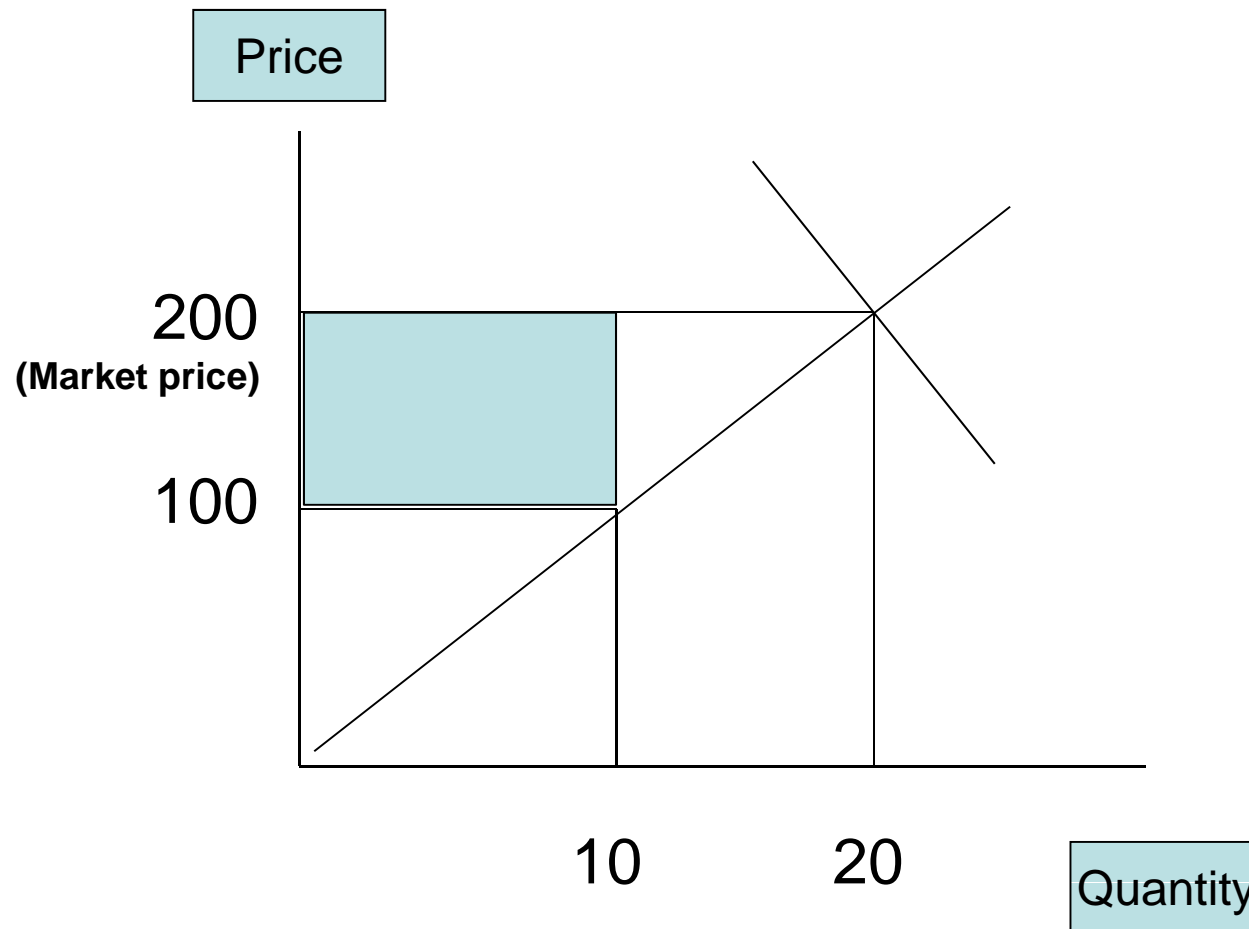
As demand increases, a market price goes up, and supply increases. (Price=Signal)



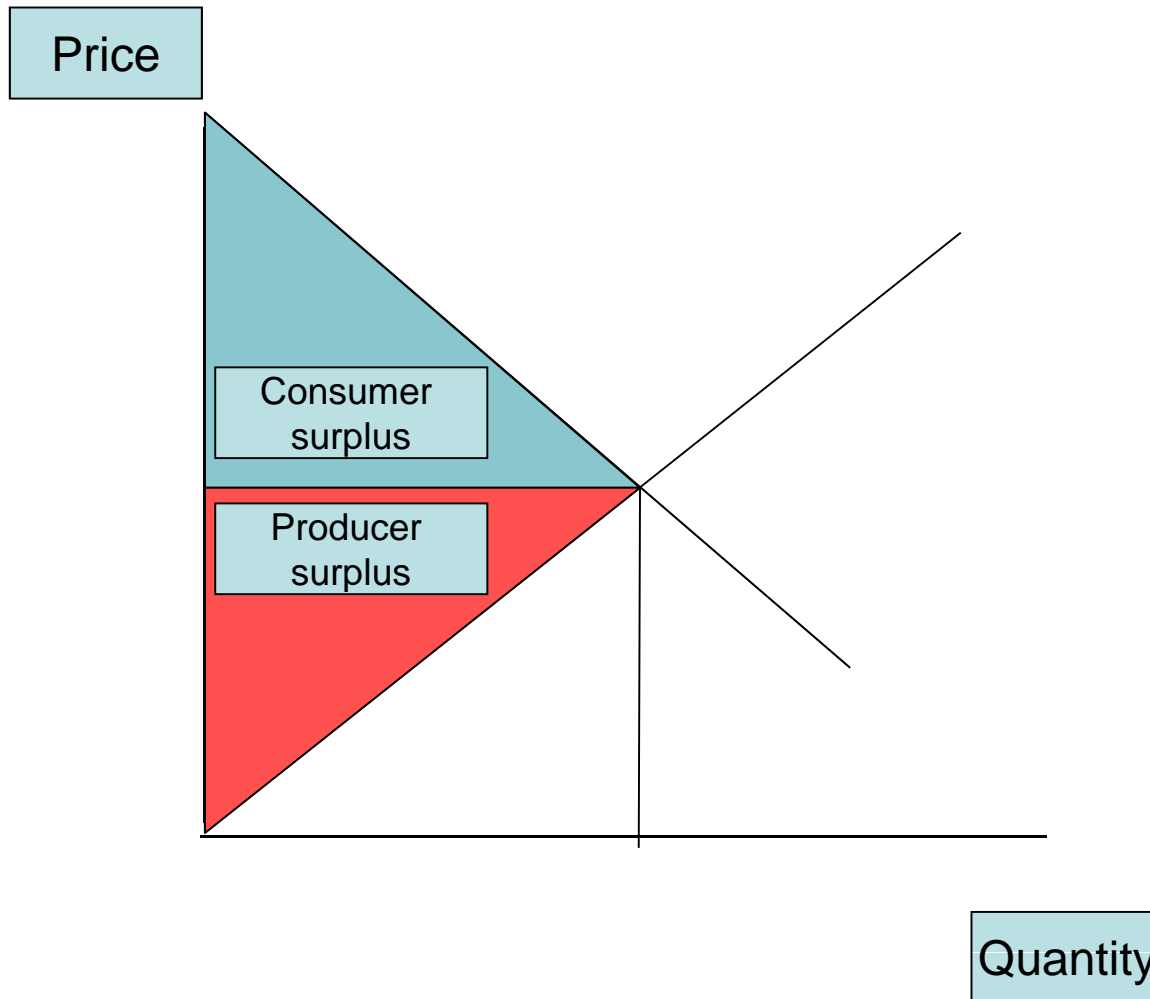
Consumer surplus (difference between price and consumer benefit) occurs in market trade. (\Leftrightarrow diversity of consumers)



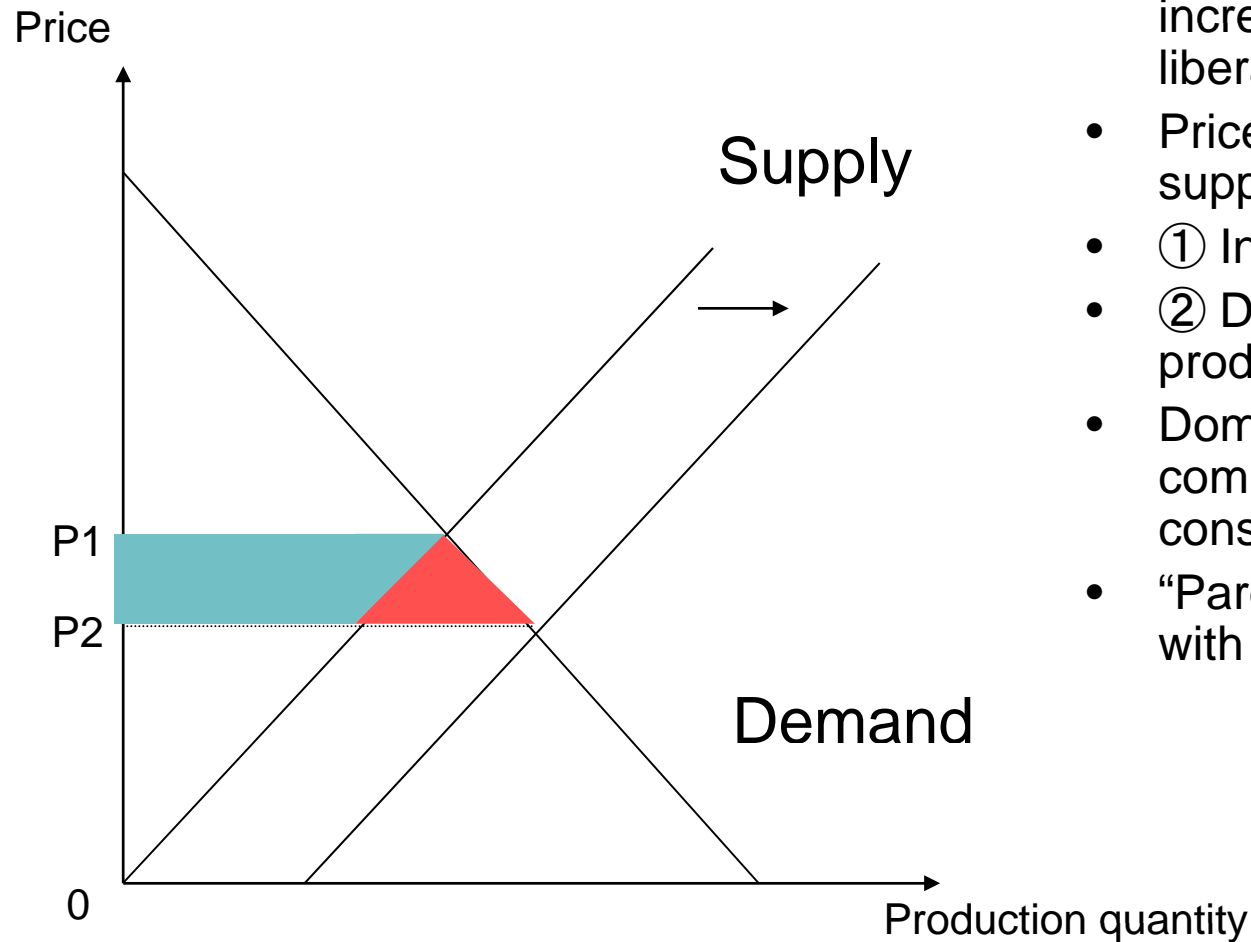
Producer surplus (difference between price and producer's cost) occurs in market trade. (\Leftrightarrow diversity of producers)



Consumer surplus and producer surplus get maximized under an equilibrium price in market.



Benefit of Free Trade



Expansion of consumer benefit: $a + b$

Reduction in domestic producer's surplus: a

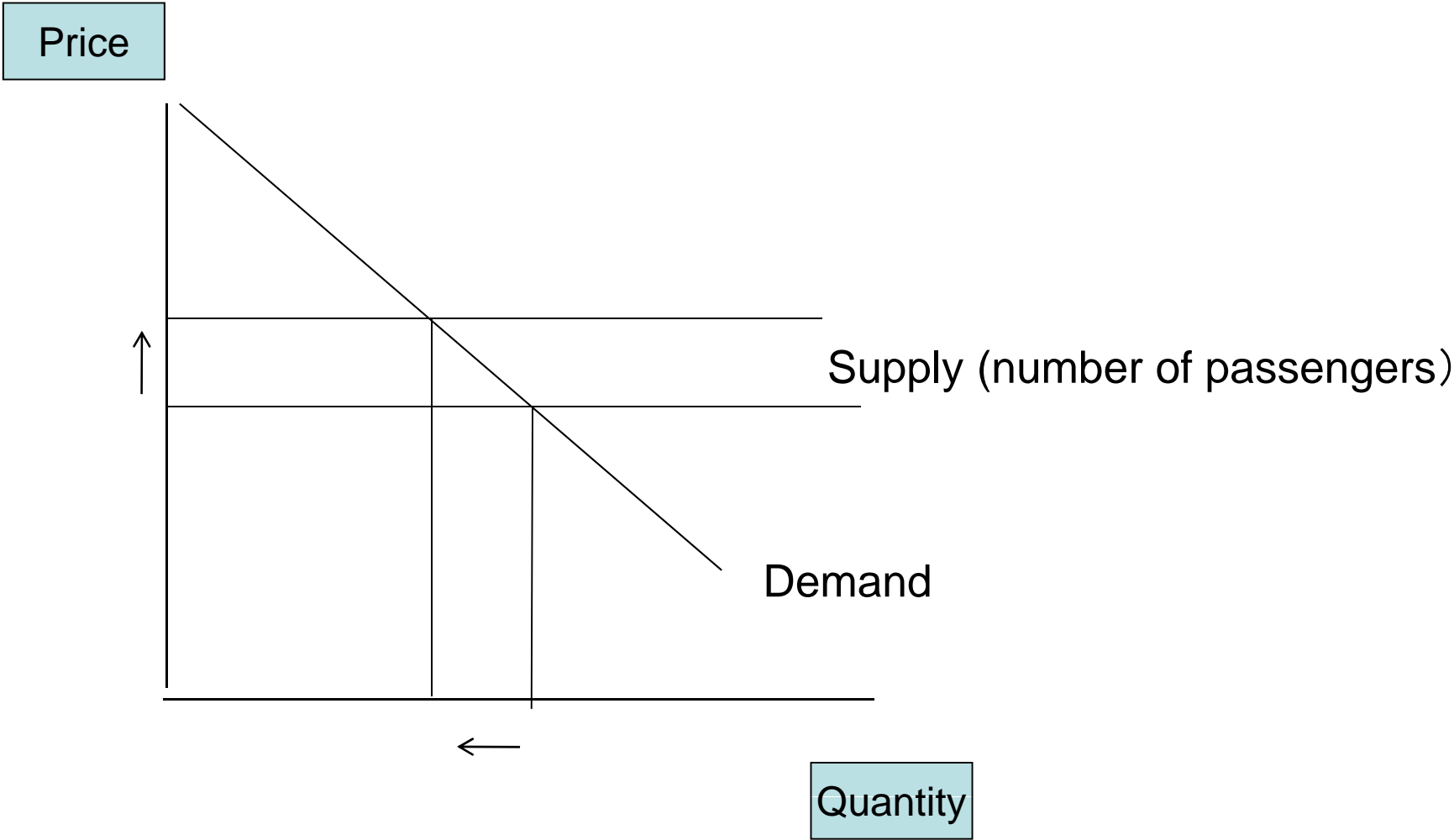
- Supply shifts to the right with an increase in imports due to trade liberalization.
- Price falls off due to an increase in supply.
- ① Increase in consumer surplus
- ② Decrease in domestic producer's surplus
- Domestic producer's loss to be compensated by an increase of consumer's surplus
- "Pareto Efficiency" to be realized with a compensation for producer

A congestion phenomenon as an example of a dysfunctional market

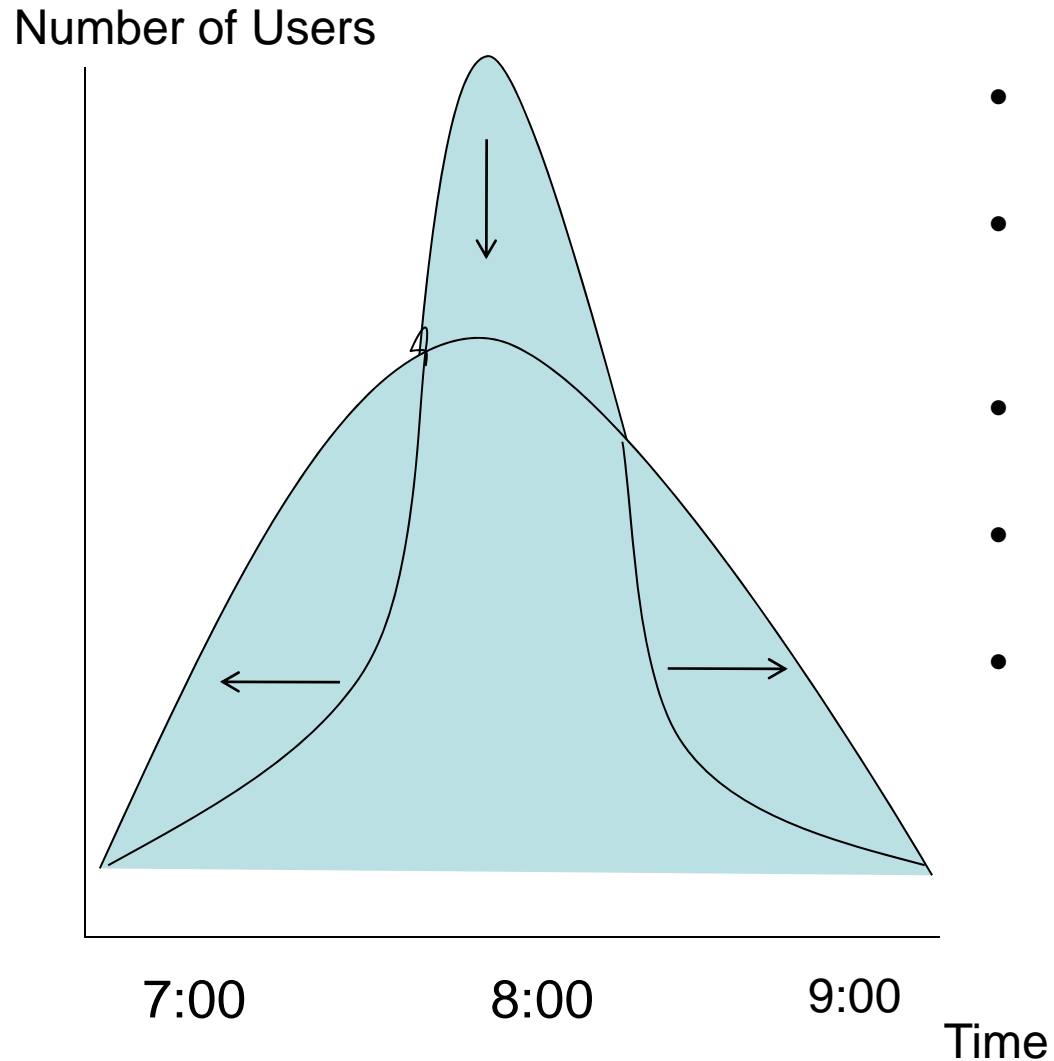


Source: http://commons.wikimedia.org/wiki/File:Rush_hour_at_Ueno_02.JPG

A raise in the fare is effective for solving congestion (social expenditure).

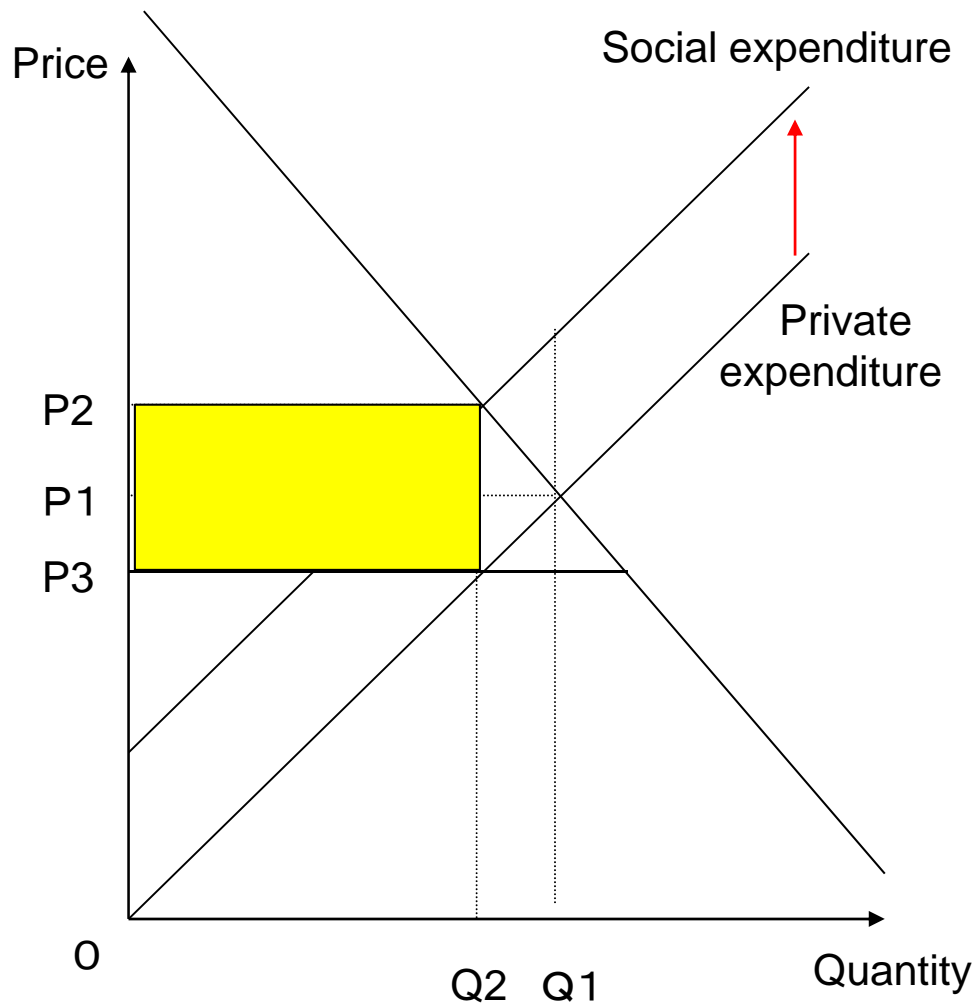


Point of View on Peak Load Pricing



- A raise in the fare at peak hour and a reduction in one at off-peak times
- To induce passengers toward adjacent times by specifying the congestion fare
- Necessary to set up the fare by the minute
- Trade among passengers on the right to use at peak hour
- An approach of a “congestion tax”

Point of View on Pigouvian tax



- Excessive production level without consideration to social expenditure
- Supply curve shifts upward with an imposition of taxes on suppliers corresponding to expenditure.
- Decline in demand at the new balance point due to a price hike
- Pigouvian tax for the correction of social expenditure to be borne by consumers and producers

Emission Trading

- Fixation of an emissions prospect in the entire world
- Targeted reduction volume by country = Allotment of the right to emit
- Considered as a benchmark for the allotment: ① simply in proportion to the total population, ② an economic standard (GDP per capita)
- The purchase of the right to emit leads to an increase in the burden of corporations and households (Pigouvian tax).
- Developing nations, where the amount discharged per capita is limited, are to increase the income by exporting their right to emit to developed nations (= development assistance)
- If developing nations advance energy saving, their value of exports of the right to emit will increase that much, constituting a further incentive for revenue increase.
- To prevent the warming of the earth by the formation of a global emission trading market

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