

LAW & ECONOMICS CENTER, GEORGE MASON UNIVERSITY SCHOOL OF LAW
Henry G. Manne Program in Law & Economics Studies
LEC Workshop for Law Professors on the Economics of Contracting
Friday, January 25 through Monday, January 28, 2013

Agenda

Friday, January 25

Registration and Classes held in the Spinnaker Room

4:00 – 4:30 pm

Registration Desk Open, Refreshments Available

4:30 – 4:45 pm

Welcome and Introductions

Discussion Leaders:

Henry N. Butler, George Mason University Foundation Professor of Law, George Mason University School of Law and Executive Director, Law & Economics Center

Jonathan Klick, Professor of Law, University of Pennsylvania Law School

Scott E. Masten, Professor of Business Economics and Public Policy, Ross School of Business, University of Michigan

4:45 – 6:15 pm

CLASS 1: Introduction to the Economics of Contracts | Butler

Background Readings can be skipped if you are already familiar with them.

Reading Assignments marked with an (*) are required reading.

We have also included References for those interested in additional reading.

Background Readings:

None

Reading Assignments:

*Masten, "Contractual Choice", *Encyclopedia of Law and Economics, Volume III: The Regulation of Contracts*, pp. 25-45.

*Posner, "Economic Analysis of Contract Law After Three Decades: Success or Failure?", 112 Yale L.J. 829 (2003)

6:30 – 8:30 pm

**Reception and Dinner, King's Crown Lawn
History of the LEC | Butler**

Saturday, January 26

Classes held in the Spinnaker Room

7:30 – 8:00 am

Breakfast, Quarter Deck

8:00 – 9:30 am

CLASS 2: Reputation and Enforcement | Masten

Background Readings:

Macaulay, "Non-Contractual Relations in Business: A Preliminary Study," 28 Amer. Soc. Rev. 55 (1963)

Williamson, "Transaction-Cost Economics: The Governance of Contractual Relations", 22 J. Law & Econ. 233 (1979)

Saturday, January 26 cont.

Reading Assignments:

*Klein and Leffler, "Role of Market Forces in Assuring in Contractual Performance", 89 J. Pol. Econ. 615 (1981)

References:

Masten and Kosová, "Post-Sale Service and the Limits of Reputation," *Industrial and Corporate Change* (forthcoming)

Joskow, "Contract Duration and Relationship-Specific Investments: Empirical Evidence from Coal Markets", 77 Amer. Econ. Rev. 168 (1987)

10:00 – 11:30 am

CLASS 3: Relational Contracting and Price Adjustment | Masten

Background Readings:

None

Reading Assignments:

*Klein, "Why Hold-ups Occur: The Self-Enforcing Range of Contractual Relationships", 34, Economic Inquiry 444 (1996)

**Aluminum Company of America v. Essex Group, Inc.*, 499 F. Supp. 53 (1980)

*Crocker & Masten, "Pretia Ex Machina? Prices and Process in Long-Term Contracts", 34 J. Law & Econ. 69 (1991)

References:

Milgrom and Roberts, "Risk Sharing and Incentive Contracts," Chapter 7 in *Economics, Organizations and Management* (1992), pp 206-32.

Goldberg and Erickson, "Quantity and Price Adjustment in Long Term Contracts: A Case Study of Petroleum Coke", 30 J. Law and Econ. 369 (1987)

Masten and Crocker, "Efficient Adaptation in Long Term Contracts: Take or Pay Provisions for Natural Gas", 75 Amer. Econ. Rev. 1083 (1985)

Masten, "Long-Term Contracts and Short-Term Commitment: Price Determination for Heterogeneous Freight Transactions", 11 Amer. Law and Econ. Rev. 79 (2009)

Hart and Moore, "Contracts as Reference Points", 123 Quar. J. Econ. 1 (2008)

Baker, Gibbons, and Murphy, "Subjective Performance Measures in Optimal Incentive Contracts", 109 Quar. J. Econ. 1125 (1994)

11:30 am – 12:15 pm

Group Lunch, Quarter Deck

12:30 – 2:00 pm

CLASS 4: Contractual Choice I: Vertical Integration | Masten

Background Readings:

Klein, Crawford, and Alchian, "Vertical Integration, Appropriable Rents and the Competitive Contracting Process", 21 J. Law and Econ. 297 (1978)

Reading Assignments:

Saturday, January 26 cont

*Klein, "Fisher-General Motors and the Nature of the Firm", 43 J. Law and Econ. 105 (2000)

*Williamson, excerpts from "The Limits of Firms: Incentive and Bureaucratic Features," Chapter 6 in *The Economic Institutions of Capitalism* (1985), pp 131-62

*Gil and Hartmann, "Airing Your Dirty Laundry: Vertical integration, Reputational Capital, and Social Networks", 27 J. Law, Econ., and Org. 219 (2011)

References:

Whinston, "On the Transaction Cost Determinants of Vertical Integration", 19 J. Law, Econ., and Org. 1 (2003)

Gibbons, "Four Formal(izable) Theories of the Firm", 58 J. Econ. Behavior and Org., 202 (2005).

Forbes and Lederman, "Adaptation and Vertical Integration in the Airline Industry", 99 Amer. Econ. Rev. 1831 (2009)

Masten, Meehan, and Snyder, "The Costs of Organization", 7 J. Law, Econ., and Org. 1 (1991)

2:00 – 6:00 pm

Study Break

6:30 – 8:30 pm

Reception and Dinner, King's Crown Lawn

Sunday, January 27

Classes held in the Spinnaker Room

8:30 – 9:00 am

Breakfast, Quarter Deck

9:00 – 10:30 am

CLASS 5: Contractual Choice II: Vertical Restraints as Contract Enforcement | Klick

Background Reading:

Benjamin and Murphy, "Vertical Restraints as Contract Enforcement Mechanism", 31 J. Law and Econ. 265 (1988)

Reading Assignments:

*Klein and Wright, "The Economics of Slotting Contracts", 50 J. Law and Econ. 421 (2007)

*Kenney and Klein, "The Economics of Block Booking", 26 J. Law and Econ. 497 (1983)

**Leegin Creative Leather Prod., Inc. v. PSKS, Inc.*, 127 S. Ct. 2705, 2710 (2007).

11:00 am – 12:30 pm

CLASS 6: Antitrust and Exclusionary Contracts | Klick

Reading Assignments:

*Krattenmaker and Salop, "Anticompetitive Exclusion: Raising Rivals' Costs to Achieve Power over Price", 96 Yale L.J. 209, 242 (1986)

*Klein and Lerner, "The Expanded Economics of Free-Riding: How Exclusive Dealing Prevents Free-Riding and Creates Undivided Loyalty", 74 Antitrust L. J. 473 (2007)

References:

Sunday, January 27 cont

Marvel, "Exclusive Dealing", 25 J. Law and Econ. 1 (1982)

Bernheim and Whinston, "Exclusive Dealing", 106 J. Pol. Econ. 64 (1998)

Simpson and Wickelgren, "Naked Exclusion, Efficient Breach, and Downstream Competition", 97 Amer. Econ. Rev. 1305 (2007)

Rasmusen, Ramseyer, and Wiley, "Naked Exclusion", 81 Amer. Econ. Rev. 1137 (1991).

Fumagalli and Motta, "Exclusive Dealing and Entry When Buyers Compete", 96 Amer. Econ. Rev. 785 (2006)

12:30 – 2:00 pm

CLASS 7: Working Lunch: Discussion Session and Research Topics | Klick, Masten

No additional Reading Assignments

2:00 – 6:30 pm

Study Break

6:30 – 8:30 pm

Reception, Dinner and Closing Remarks, *Sunset Beach Luau*

8:30 pm

Adjourn

Monday, January 28

Departure