

Part I: Answer any THREE questions. Each is worth 10 points.

1. How do economists model the choice of an optimal duration for a patent? In other words, explain the tradeoffs that society faces in making this choice.
2. What are the two rules that could be applied in determining property rights to fugitive property? What are the advantages and disadvantages of each rule?
3. The Fifth Amendment to the US Constitution prohibits the state from taking private property except under two conditions. What are these two conditions and what is the economic rationale for them?
4. Distinguish between the Normative Coase and Hobbes Theorems and their implications for how courts should rule in property cases.

Part II: Answer any TWO questions from this part. Each is worth 15 points.

5. A theory of property law must address four fundamental questions. Presented below are three of the four questions.
 - What can be privately owned?
 - How are ownership rights established?
 - What may owners do with their property?

Give a brief explanation of how our economic theory of property law answers each question.

6. Scientists have recently discovered how to use a new band of the electromagnetic spectrum to transmit telephone calls. Like radio messages, local transmissions on the same frequency interfere with each other. Congress must decide what laws should apply to the spectrum. Congress wants some advice from you.
 - a) The new spectrum is wide and the initial users will be few in number. State briefly the advantages of an open access rule, which permits anyone to use the spectrum as they wish.
 - b) Use of the spectrum will increase with time. As use grows, pressure will mount to change the law from open access to "private property rights," by which I mean that exclusive rights of use will be assigned to individuals. Describe the point in time when efficiency demands changing from an open access rule to private property rights.
7. Spew-matic Steel Company operates a factory on Dead Creek. Recently they installed a new production process in order to modernize and compete more effectively with foreign competitors. In addition, they just settled on a new contract with their workers reducing the wage of workers by \$2.00 per hour. As a result of the new production process, additional pollutants are being discarded into Dead Creek, which also serves as the primary water supply for a low-income housing development downstream from Spew-matic. After introduction of the new production process, residents began to notice a foul smell around Dead Creek and a bad taste in their drinking water. There were also increases in various health problems in the housing development. Consequently, the residents brought suit requesting damages for past and future harms to be paid by Spew-matic. The court instead enjoined Spew-matic citing the significant adverse effects of the pollution as grounds for their decision. Evaluate the court's decision in terms of economic efficiency regarding the choice of remedy.