

**Questions on 2<sup>nd</sup> Midterm Readings from Friedman's *Law's Order*****Chapter 12: The Economics of Contract**

1. Friedman notes a study of orthodox Jews who, because they were forbidden by their religious beliefs from suing each other, could not rely on contract law to enforce their agreements. How then did they manage to enforce those agreements?
2. Under what conditions does reputation provide little or no incentive to honor one's agreements?
3. Courts sometimes do not enforce contracts because their terms reflect "unequal bargaining power." What economic conditions lead to "unequal bargaining power"? What does Friedman think about non-enforcement of such contracts?
4. What are the reasons contracting parties might wish to include a "penalty clause" in their contract? What does Friedman mean when he says that "a penalty clause is a private version of a property rule?"
5. What are *contracts of adhesion* and what economic purposes do they serve?
6. "A physician comes upon an auto accident, stops, and treats an unconscious and badly bleeding victim. A week later, the victim receives a bill for services rendered. Must he pay it?" What is Friedman's answer and why is it generally consistent with economic efficiency? Can you draw an analogy with the doctrine of "necessity" we studied in our material on property?
7. What are the economic arguments for and against the decision in *Laidlaw v. Organ*? How do they relate to the more general economic analysis of speculation?

**Chapter 6: Of Burning Houses and Exploding Coke Bottles**

8. What steps can insurance companies take to reduce the problem of moral hazard?
9. Friedman argues that in some circumstances moral hazard can be a "feature" rather than a "bug." What does he mean, and in what general circumstances can moral hazard be considered a "feature" and why?