

Law and Economics
Session 1
Course Outline
Economics of Crime Preview

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Outline

Course Outline

Introduction

Preview: The Decline in Crime in the 1990s

Welcome to the course

- ▶ May 27 – July 3
- ▶ MTWR, 6:30pm-8:05pm
 - ▶ One or two Friday make-up classes. Does 6:30pm Fridays work?
- ▶ 402B International Affairs Building
- ▶ Recitations: Wednesdays, 2pm-3pm (same room)
- ▶ Office Hours

Grading

- ▶ Five Problem Sets (25%)
- ▶ Group Presentation (15%)
- ▶ Midterm Exam (25%)
- ▶ Final Exam (35%)

Problem Sets

- ▶ Five Problem Sets
 - ▶ Economics questions based on readings and lectures
 - ▶ Legal analysis essays (<1 page)

Group Presentations

- ▶ We will divide into small groups based on topic preferences:
 - ▶ Environmental law, Health/safety regulation, Taxation, International law, Corporate law/governance, Bankruptcy law, Antitrust, Regulation of natural monopoly, Employment law, Antidiscrimination law, Family Law, Trusts and Estates, Evidence
- ▶ Short presentation in last week of class, including analysis of a court case.

Readings

- ▶ Textbook: Cooter and Ulen, Law and Economics.
 - ▶ Sixth Edition is recommended, but Fifth Edition is fine too.
- ▶ Other:
 - ▶ Posner, Economic Analysis of Law
 - ▶ Handbook of Law and Economics
 - ▶ Links from syllabus
 - ▶ CourseWorks
- ▶ It might seem like a lot of pages, but the book reads easily and you only need the main ideas. I won't ask exam questions about any material from the textbooks that wasn't also covered in the lectures or in the problem sets.

Topics Covered

- ▶ Theme of the course: the various bodies of law can be analyzed under a unified economic framework.
- ▶ The main topics:
 1. Property law
 2. Contract law
 3. Tort law
 4. Criminal law
- ▶ Supporting topics:
 1. Legal process
 2. Evolution of legal rules
 3. Judge decision-making
 4. Constitutional law
- ▶ Let me know if there is a topic missing that you were hoping to learn about.

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Introduction

Preview: The Decline in Crime in the 1990s

The big picture

- ▶ This course will teach you how to use economic analysis to think about the law.
- ▶ We use economic theory to analyze how legal rules act as incentives and what their welfare implications are.
- ▶ Social scientists of all stripes have studied legal issues, but economists have made by far the most important contributions.
- ▶ I propose that economics can contribute to the understanding of any legal issue.

Traditional Legal Approach

- ▶ The dominant approach in courts and law schools:
 - ▶ Appeals to common sense, prevailing social norms, philosophical doctrines, or historical background of the legislation to sort out how to interpret and enforce the law.
 - ▶ Lacks coherence and uniformity in application.

Law and Economics

- ▶ Provides economic framework for understanding law and legal institutions:
 - ▶ Model individual behavior as responses to incentives established by legal institutions
 - ▶ Make predictions about responses to laws and subsequent social outcomes
 - ▶ Draw normative implications when applicable

Limitations of Economic Approach?

- ▶ Economists often make strong assumptions about how the law and society interact.
- ▶ For example:
 - ▶ Utility/profit maximization
 - ▶ Perfect information
 - ▶ No externalities
- ▶ These assumptions are false, but they allow coherent analysis
- ▶ You can always build on the simple models – in the traditional approach, there's nowhere to go.

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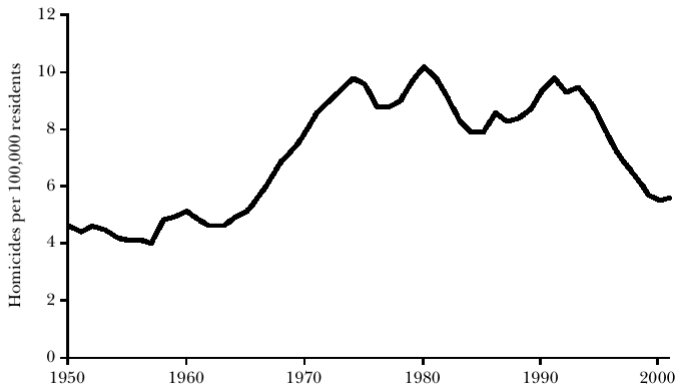
Introduction

Preview: The Decline in Crime in the 1990s

The great crime decline

Figure 1

Homicide Rate, 1950–2001



The great crime decline

Table 2

National Trends in Specific Categories of Crime

<i>Crime category and data source</i>	<i>Percentage change in crime category, 1973–1991</i>	<i>Percentage change in crime category, 1991–2001</i>
Crimes reported to the police from UCR		
Violent crime	+82.9	-33.6
Homicide	+5.4	-42.9
Rape	+73.4	-24.8
Robbery	+50.0	-45.8
Aggravated assault	+118.1	-26.7
Property crime	+38.2	-28.8
Burglary	+3.0	-40.9
Larceny	+56.7	-23.2
Motor vehicle theft	+49.8	-34.6
Criminal victimizations from NCVS		
Violent crime	+1.6	-50.1
Rape	-20.0	-45.0
Robbery	-15.5	-53.3
Aggravated assault	-3.9	-56.9
Simple assault	+10.7	-47.0
Property crime	-32.0	-52.8
Burglary	-41.3	-55.6
Theft	-46.5	-51.6
Motor vehicle theft	+16.2	-58.6

The great crime decline

Homicide Trends in Large U.S. Cities

<i>City</i>	<i>Year that homicide peaked</i>	<i>Peak homicide rate (per 100,000)</i>	<i>2001 homicide rate (per 100,000)</i>	<i>Percentage decline in homicide, peak to 2001</i>
New York City	1990	30.7	8.1	-73.6
San Diego	1991	14.7	4.0	-72.8
Austin	1985	12.8	3.9	-69.5
San Jose	1985	7.8	2.4	-69.2
Seattle	1994	12.8	4.4	-65.6
Jacksonville	1990	27.6	9.9	-64.1
Houston	1991	36.5	13.4	-63.3
San Antonio	1992	22.5	8.5	-62.2
Dallas	1991	48.6	19.7	-59.5
Denver	1992	19.3	7.9	-59.1
Honolulu	1986	5.6	2.3	-58.9
San Francisco	1993	17.5	7.7	-56.0
Boston	1990	24.9	11.0	-55.8
Washington, D.C.	1991	80.6	40.6	-49.6
Los Angeles	1993	30.5	15.6	-48.9
Columbus	1991	21.6	11.4	-47.2
Philadelphia	1990	31.7	20.4	-35.6
Detroit	1987	62.8	41.3	-34.2
Chicago	1992	33.1	22.9	-30.8
Phoenix	1994	21.5	15.3	-28.8
Indianapolis	1991	19.4	14.0	-27.8
Memphis	1993	32.0	24.1	-24.7
Las Vegas	1991	15.7	11.9	-24.2

Explanations for the crime decline

- ▶ Any ideas?

Popular explanations in the mass media

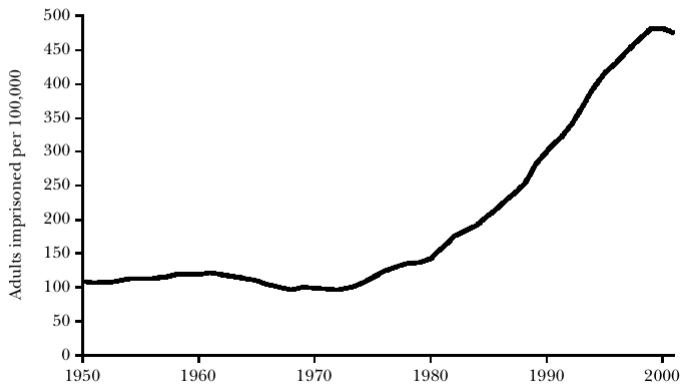
Media Explanations for the Decline in Crime in the 1990s, Ranked by Frequency of Mention

<i>Explanation</i>	<i>Number of mentions</i>
Innovative policing strategies	52
Increased reliance on prisons	47
Changes in crack/other drug markets	33
Aging of the population	32
Tougher gun control laws	32
Strong economy	28
Increased number of police	26
All other explanations	34

Notes: Based on a Lexis-Nexis search of articles written about the national decline in crime in leading newspapers over the period 1991–2001. Newspapers included in the tabulation are the *New York Times*, *Washington Post*, *USA Today*, *Houston Chronicle*, *San Francisco Chronicle*, *Chicago Sun Times*, *Boston Globe*, *Atlanta Journal Constitution*, *Minneapolis Star Tribune* and *San Diego Union-Tribune*. These are the ten largest circulation newspapers that are included in Lexis-Nexis.

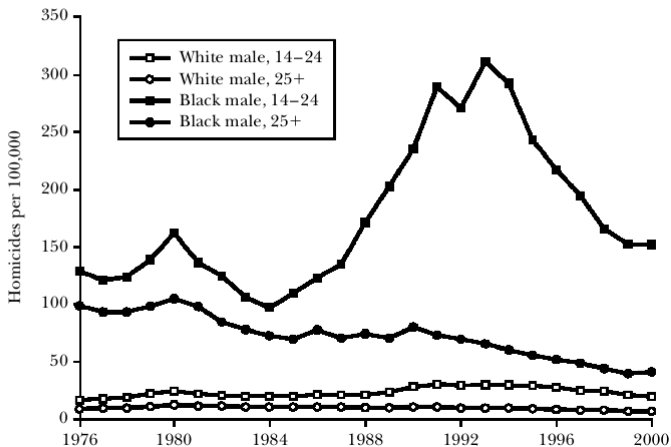
Increasing prison population

Adult Incarceration Rate, 1950–2001



The receding crack epidemic

Homicide Offending Rates by Race and Age



Summing up

Summarizing the Estimated Contribution of Various Factors to the Decline in Crime in the 1990s

<i>Factor</i>	<i>Percentage change in crime that this factor accounts for over the period 1991–2001:</i>			<i>Certainty level of estimated impact</i>
	<i>Homicide</i>	<i>Violent crime</i>	<i>Property crime</i>	
Strong economy	0	0	-2	High
Changing demographics	0	-2	-5	High
Better policing strategies	-1	-1	-1	Low
Gun control laws	0	0	0	Medium
Concealed weapons laws	0	0	0	High
Increased usage of capital punishment	-1.5	0	0	Medium
Increases in the number of police	-5.5	-5.5	-5.5	Medium
Increases in the prison population	-12	-12	-8	High
The decline of crack	-6	-3	0	Low
Legalized abortion	-10	-10	-10	Medium
Total of all factors considered	-36	-33.5	-31.5	
Actual change in UCR reported crime	-43	-34	-29	
Actual change in NCVS victimization	—	-50	-53	

Lead exposure

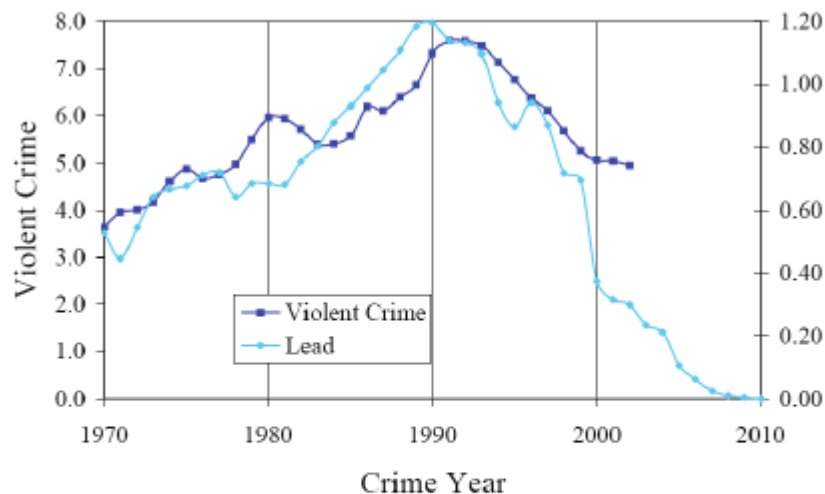


FIGURE 4. Violent Crime and Lead (20-year lag)

Lead exposure

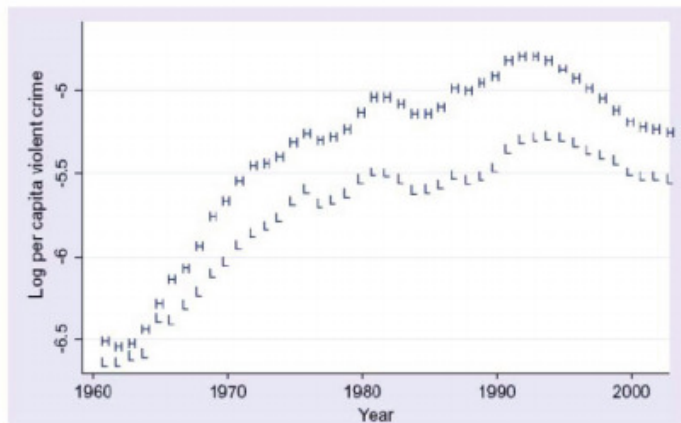


FIGURE 5. Violent Crime 1960 to 1990,
States with High Changes in Lead vs. States with Low Changes in Lead

Future research

- ▶ Any ideas we didn't cover here?
- ▶ Tomorrow we'll continue with the intro to law and legal institutions.