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THE POWER OF INCENTIVES

How Seat Belts Kill

In 1965, ralph Nader published Unsafe at Any Speed, a book calling attention to various design elements that made cars more dangerous than necessary. The federal government soon responded with a wide range of automobile safety legislation mandating the use of seat belts, padded dashboards, collapsible steering columns, dual braking systems, and penetration resistant windshields. The number of

auto accidents increased. The reason is that the threat of being killed in an accident is a powerful incentive to drive carefully. The regulation tend to reduce the number of driver deaths by making it easier to survive an accident. At the same time, the regulations tend to increase the number of drive deaths by encouraging reckless behavior.

In the middle 1970's, Sam Peltzman of the University of Chicago did just that. He found that the two effects were of approximately equal size and therefore cancelled each other out.

Peltzman's observations reveal that driving behavior is remarkably sensitive to changes in the driver's environment. This affords an opportunity for some drivers to influence the behavior of others.

The refined statistical techniques collectively known as econometrics is designed precisely to measure the power of incentives. This makes it natural to apply econometrics in examining the effect of the death penalty. The pioneer in this effort was Prof. Issac Ehrlich of the University of Buffalo, whose work was published in 1975. His sophisticated analysis led to a striking conclusion: During the 1960's, on average, each execution that took place in America prevented approximately 8 murders.

In 1983, Prof. Edward Leamer of the University of California at Los Angeles published an amusing article called "Let's Take the Con Out of Econometrics," in which he warned that the prejudices of the researcher can substantially affect his results. Leamer used the death penalty as an example.

Indeed, the response to incentives may be as innate as any other instinctive behavior. In a series of experiments at Texas A&M University, researchers have allowed rats and pigeons to "purchase"

various forms of food and drink by pushing various levers. The researchers have found that rats and pigeons respond appropriately to changes in prices, changes in income, and changes in wage rates.

I agree with that incentives really affect our behaviors and opposite effects come to happen. For example seat belts can protect our lives and at the same time it can also risk our lives in the sense that it lessens our motives to drive carefully. The result of the two can be cancelled out and the net effect of the regulations to decrease or to increase the number of driver deaths will be almost the same as before the regulations.

OF MEDICINE AND CANDY, TRAINS AND SPARKS

Economics in the Court-room

Whoever controls the resource, and however his control is protected, he will find it to his private advantage to direct the resource to its most profitable use, regardless of whether that use is by him or by his neighbor. The court cannot affect the profitability of either enterprise and therefore cannot control how the resource is employed. This startling observation about the impotence of judges was made in 1961 by Professor Ronald Cease of the University of Chicago Law School.

In Coase's honor, his observation has come to be called the Coase Theorem. It applies whenever the par-ties to a dispute are able to negotiate, to strike bargains, and to be confident that their bargains are enforceable. Under these circumstances, the Coase Theorem says that the allocation of property rights, or he choice of liability rules, or more generally any distribution of entitlements(a formulation that includes both property rights and liability rules) has no effect on the ultimate allocation of resources. Judges' decisions don't matter.

It is easy, however, to think of circumstances in which the Coase Theorem does not apply, because negotiation is either impossible or prohibitively expensive. This can happen, for example, if the number of parties to a dispute is very large.

The flipside of the Coase Theorem is when circumstances prevent negotiation, entitlements-liability rules, property rights, and so forth-do matter. Moreover, the traditional economist's prescription for efficiency-making each individual fully responsible

for the costs he imposes on others-is meaningless. It is meaningless because the costs in question result form conflicts between two activities, not from either activity in isolation. The traditional prescription blinds us to the fact that either party to conflict might be in possession of the efficient solution, and that the wrong liability rule can eliminate the incentive to implement that solution.

Coase Theorem really works in real life in various way. For example, when two parties have a car accident and whatever the sentence is, they are going to settle the problem by their own agreement with money. But the Coase Theorem is not always correct because the stronger party will take advantage of the weaker that it is necessary not to apply Coase Theorem.

Class Evaluation

The curriculum of this class was painstaking because we are required a lot of work. We are asked to read a lot of materials. But it was useful to have a legal mind. People in the class were very busy doing their own work and I am so glad that by working together I come to know many people closely.

I really want to know about law school and most of the class want it also. What I want to ask is to teach us with materials, which will be helpful in studying in law school. But since most students are preparing for the bar exam, having their own time to study by themselves is very important.