

**EE403 Law and Economics**  
**Semester 1/2017**  
**Homework 1**

**Submission Date: Friday 22 September 2017; 14:00 hr.**

**The Fountain Blue Hotel** is located on Suan Son Beach, Rayong Province. Fountain Blue expands its business by building a new fourteen-storey addition on its premise. But the shadow of the new addition would fall over the swimming pool and sunbathing areas of a neighboring resort, **the Crystal Rock Resort Hotel**.

Assume two alternative legal rules:

**Rule 1:** Fountain Blue has the rights to build its new addition.

**Rule 2:** Crystal Rock has the rights to unobstructed sunshine on its premise.

Use **the Coase Theorem** to evaluate the effects of these legal rules in the two following cases in terms of efficient resource allocation, **assuming zero transaction costs**.

**Case 1:** Assume the following:

- The profit for Fountain Blue from the new building is THB 1,500,000 pa.
- The lost profit for Crystal Rock due to a sunless resort is THB 1,000,000 pa.

**Case 2:** Assume the following:

- The profit for Fountain Blue from the new building is THB 1,000,000 pa.
- The lost profit for Crystal Rock due to a sunless resort is THB 1,100,000 pa.