

Exercise 2 and 3

Contract, criminal and legal process

(Due Date : November 25, 2022 by 14:00pm)

Question 1

A buyer (B) pays \$10,000 to a New Orleans grain dealer (N) in exchange for N's promise to deliver grain to B's office in London on October 1st. As a result of signing the contract, B decides not to sign a similar contract with another dealer for \$10,500. B signs a shipping deal with shipper S, and pays a non-refundable \$100 docking fee to the shipper. B signs a contract to sell the grain to a third party for \$11,000. The grain is damaged, and the dealer backs out of the contract and sells the damaged grain to a cattle rancher for \$500. B buys the equivalent grain from some other party for \$12,000.

1. What would expectation damages be for N's breach of contract?
2. What would Reliance damages be for N's breach of contract?
3. What would Opportunity cost damages be for N's breach of contract?

Question 2.

KAP runs a shipping company, and can ship his clients' packages via either the Thai Postal Service (TPS) or Federal Express. Shipping by TPS costs \$20, but there is a 1 in 50 chance the package will be a week late. Shipping by FedEx costs \$50, but there is no chance the package will be late. Suppose that for three-quarters of KAP's clients, a week's delay would cause \$1,000 worth of inconvenience; for the other quarter, the package is urgent, and a week's delay would cost \$5,000.

1. What is the efficient means of shipping for an urgent package? For a non-urgent package?
2. Suppose KAP can't tell whether a particular package is urgent or not. The expected value of a week's delay is therefore \$2,000. If expectation damages are based on the actual cost of delay, what would he choose to do?

Question 3.

Suppose that an individual contemplates committing an illegal act that will yield a gain of g dollars. Assume that the probability of apprehension is p and the punishments consist of a fine, f , and a term of imprisonment, t . Let c be the dollar cost of prison per unit of time in prison.

- a) Derive the expected punishment
- b) Derive the condition that the offender will commit the act.
- c) Derive the amount of fine that will deter offender from committing the crime.

Question 4.

Assume that burglars correctly believe that many people in your neighborhood keep guns. How might this fact increase your security? How might this fact endanger you?

Question 5.

Suppose a plaintiff and defendant estimate the same probability of plaintiff victory at trial, P , but disagree about the amount that a victorious plaintiff will recover. The plaintiff estimates this amount to be J_p while the defendant estimates it to be J_d . Derive the condition for settlement. What must be true of J_p and J_d for a trial to occur?