

The Economic Approach to Law

By Thomas J. Miceli. 2004.
Stanford, CA: Stanford University
Press. Pp 408. \$85.00 hardcover.



Business economists use economic principles to help understand and solve problems. Since litigation affects more and more business decisions, it would be useful to analyze legal conflict using the framework of economics.

In *The Economic Approach to Law*, Thomas J. Miceli applies economic tools and principles to the functioning of the law. The book is aimed at undergraduate economics majors, but the treatment of the topic does not require economics or legal training on the part of the reader. Indeed, anyone with curiosity about the connection between law and economics and the willingness to think through numerous examples should read this book. A professor at the University of Connecticut, the author is well-qualified for the topic, having published numerous academic studies in the field of law and economics. The law considered in *The Economic Approach to Law* is case law or common law, built up over the years in the U.S. judicial system.

Relatively new, the field of law and economics can be traced to the early 1960s and the Chicago school of economics. The most important contribution to this literature was Ronald Coase, "The Problem of Social Cost" from *The Journal of Law and Economics* (October, 1960). In this article, Coase argues that parties

to an externality will reach the efficient outcome by bargaining, regardless of how liability is assigned by the law. The implication is that government intervention is not necessary to internalize externalities; simply let the parties bargain and the efficient solution will result. This idea became known as the Coase Theorem.

Before the Coase Theorem, the prevailing view in economics was government intervention in the form of taxes on externalities, forcing the polluter to internalize costs borne by others. The Coase Theorem argued that government intervention is not required as long as the costs of bargaining are low and the parties reach a solution. In these situations, the role of law can be limited to a set of relatively inflexible rules. The catch is that when costs are high, bargaining is difficult or impossible. In these cases, the court system provides a framework for resolving disputes, balancing the costs and benefits case by case. When transactions costs are high, the law matters for efficiency.

The textbook applies economics to the study of the common law of torts, contracts, and property, with discussions of the litigation process, involuntary property transfers and eminent domain, concluding with a chapter on the economics of crime. The role of incentives, so important in economic theory, is found throughout the volume. For example, tort law, or accident law, sets out rules of behavior for those who engage in risky activities. An injured party may sue and obtain monetary compensation for negligence, thus presenting an important incentive for minimizing costs to others from risky activity. How much should a business invest in risk reduction? Keep spending on risk reduction until all risk is elimi-

nated? In general, no: the last dollar spent for risk reduction should be just equal to the value of accident losses saved.

Each chapter begins with an overview and introduces the material with a little theory and a lot of context. The discussion begins with simple examples, giving way to more complex and realistic situations as the chapter progresses. The exposition is mostly textual with a few well-placed equations and graphs. The graphs and equations help move the story along, clarifying points as needed. The limited use of graphs and equations is a welcome relief from most economics texts.

The chapter on property law applies the Coase Theorem, initially assuming low transactions costs, then relaxing this assumption later in the chapter. The discussion is fluid and exceptionally well-done; I plan to draw on this chapter in my economics class. The chapter develops a corollary to the Coase Theorem: use property rules to enforce property rights when transactions costs are low, while liability rules should dominate when transactions costs are high.

I suggest beginning with the chapter on property law, then skimming the chapters on tort law and contracts. The book can be picked up and reviewed when specific information is needed without loss of understanding.

The over-riding theme of this book is this: the legal system facilitates exchange in markets when feasible, and provides a framework of incentives when market exchange is not feasible. I recommend this book to economists, human resource managers, business owners, and others who must consider the implications

of the law in their decisions.

David Penn

Director, Business and Economic
Research Center
Middle Tennessee State University

The Blue Chip Murders: A Business Mystery

By William T. Wilson. 2004.

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What might your reaction be to an increasingly violent string of murders, each coinciding with a stock market rally? Curiosity? Amusement? Elation? Prepare for all

of the above, along with horror and 262 pages of suspense.

Bill Wilson's *Blue Chip Murders* is more than just a first novel. It is a thoroughly enjoyable learning experience. Wilson combines high- and low-tech in the business of murder with high- and low-tech in the world of finance. He weaves them into a suspenseful campus-based business mystery. He aims to entertain as well as educate readers in the basics of finance.

As off-the-wall as the plot may at first appear, that's how congruent the theme truly is. CEOs across the country are being murdered by a killer with an attitude. The killer is rankled to the core by firms who place "social responsibility" at the top of their agenda rather than efforts to maximize shareholder value. The author cites egregious behavior of self-serving or financially myopic executives who deploy company assets in fur-

thering special interest groups (e.g., Hollywood, Sierra Club, Anti-Defense pacifists), rather than the general well-being of shareholders. Soon known as the Blue Chip killer, the murderer leaves the letters "CS" at each crime scene—which Max Peterson quickly surmises stands for "Concerned Shareholder."

Max Peterson is the principal character and sleuth. His specialty is "profiling" criminals. Serial killers in particular! On leave from the FBI to earn an MBA at a mid-western university, Max is soon contacted by his old bureau chief, who desperately needs his assistance in rendering a profile of this ruthless, elusive, and enigmatic killer.

As follow-up to each murder, the killer pens a note: "Maximizing shareholder value is socially responsible." For Max, that's a heads-up to the character of the assassin as well. Bombs, gas, poisons, mines, robots, and other killing devices are cleverly deployed in the story. In fact, as an informational bonus, Wilson uses Max's investigation of each grisly murder as an opportunity for compiling a veritable *Who's Who* of names and deeds from history's most notorious serial killers.

As the mystery progresses, readers seamlessly learn both the meaning and the downside for shareholders of corporate use of "poison pills," "greenmail," "option-repricing," "golden parachutes," and "political entrepreneurship." Wilson goes for the jugular. He eschews political correctness, explaining the less-than-innocent use of "stakeholder" rather than "shareholder" in modern-day activist parlance.

Students of finance and economics will chuckle when they encounter in clear, concrete, and memorable ways four reasons why the aggressive use of corporate debt has been a generally positive force in the financial

world. These and other useful market lessons come into focus during Max's juggling of his moonlighting work as FBI profiler and his newly acquired role as academic instructor, foisted on him when a beloved professor takes ill.

As his involvement in these murder investigations deepens, so too does Max's involvement with a female student and a female investigator whose specialty is "psychic" evaluation of killer modus operandi and crime-scene karma. Moreover, Max himself is a target for termination from a completely separate source: a death-sentenced escapee from prison whose skills include stalking and coolly slicing his prey with a butcher knife.

Blue Chip Murders manages to amalgamate these experiences in much the same way that a Dilbert cartoon encapsulates in less than four frames the essence of what has gone awry in some of America's leading firms and their boardrooms. Each of the serial killer's murders is a tongue-in-cheek object lesson for students and executives, from freshman to MBA and from CFO to CEO.

Wilson deploys a no-holds-barred style in defining sins of the modern, PC-oriented firm and its duplicitous, often suicidal, tendency to become a tool of non-owner special interest groups, such as eco-terrorists, political activists, and power-hungry, campaign-fund seeking politicians.

It is fun anticipating how the paths of Peterson and the killer will cross. As professional profiler, Max, early in his analysis, suspects that the mastermind is a frustrated academic. That in itself is amusing since frustrated academicians are such ubiquitous phenomena. But is Max on the right track? What about the prison escapee? Or then again a fired employee, disaffected shareholder, or

even a passed-over woman?

The audience for Dr. Wilson's drama is clearly campus and corporate America. Students and faculty engaged in the study and teaching of economics, commerce, and finance, together with investors and employees of all firms—regardless of size—will find the intrigue and subject matter captivating, compelling or controversial.

And who is better qualified in both the academic and corporate arena than the author? Wilson, a Ph.D. in economics, with a specialty in corporate and international finance, has taught economics at the university level and has accumulated years of experience as a practitioner in the world of commercial banking and consulting. His proven track record includes the speaking circuit, innovative research, testimony before governmental committees, and countless media appearances.

Wilson has a fertile, innovative, insightful mind and he shares it fully in *Blue Chip Murders*. Yes, the novel has apparent contradictions, such as the messy life and personal habits of the main character, Max, that contrast with the amazingly organized thinking style he exhibits professionally. This feature becomes more, not less, incongruous as the plot evolves. Also, there is a degree of unevenness in the explanations of a couple financial machinations. For example, the author does a superb job of concisely describing "the winner's curse" and "cash versus stock-swap transactions" conducted during corporate merger and acquisition transactions. On the other hand, a bit fuller depiction of share-repurchase activity and more elaboration on the subject of defined-benefit versus defined-contribution in pension plans would have benefited the average reader.

Regardless, the book is highly recommended as a 20-20-60 nutri-

ent: 20 percent educational; 20 percent philosophical; and 60 percent pure escape and entertainment. ■

David L. Littmann
Chief Economist
Comerica Bank



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