

What is Law & Economics?

Interdependence, collective living, institutions, private sector, public sector (state)

The law and the economy interact in many ways. Whereas private law assists individuals and groups who are willing to **enter into agreements in a free market**, public law seeks to correct the outcomes of a free market system by means of economic and social regulation. Economists themselves should be informed about **the legal environment in which economic activities must be conducted**, while lawyers should be aware of the economic effects of current legal rules and the expected outcome under a different legal regime. Law & Economics meshes together two of society's fundamental social constructs into one subject, allowing a multi-faceted study of significant problems which exist in each subject.

What can Law & Economics do?

Law & Economics, with its positive economic analysis, seeks to explain the behaviour of legislators, prosecutors, judges, and bureaucrats. The model of rational choice, which underlies much of modern economics, proved to be very useful for explaining (and predicting) **how people act under various legal constraints**. This positive analysis informs the normative branch of the discipline about possible outcomes. If effects of divergent legal rules and institutions are known, the normative analyst will be able to discern efficient rules from those that are inefficient and formulate reform proposals to increase the efficiency of the law. **Also, Law & Economics has the ability to improve the quality of the legal system. In the last decades, an impressive literature has developed, showing the strength of both positive and normative economic analysis in various areas of law.**

History of Law & Economics

Law & Economics began its synthesis as a discipline through the theories of the Chicago School, and received guidance and influence from such pioneers as Guido Calabresi and Nobel Prize winners Ronald Coase and Gary Becker. Richard Posner's book 'Economic Analysis of Law' became one of the classics of the discipline. Recently, other methods have moved to the fore, including the **Property Rights approach**, the Austrian School and the Neo-Institutionalist approach. Finally, the **Public Choice School, with Nobel Prize winner James Buchanan** as an outstanding author, focuses more specifically on the political context of the law-making process.