

Amherst College  
Economics Department  
Economics 66  
Fall, 2010

## Discussion Questions for Week 2

### Property Rights and the Coase Theorem

1. In his famous paper on *Social Costs*, Ronald Coase concludes that “the right to do something which has a harmful effect ... is also a factor of production.” What would Coase have us do with this observation? How, if at all, does the ownership of this “right” affect the allocation of resources? How does the Coase conception compare to Pigou’s idea that it “will require state action” to improve on “natural tendencies”?
2. Anderson and Hill describe the important role that barbed wire played in the development of property rights in the American West. How would you use their graph to explain this effect?
3. The “Demsetz Conjecture” argues that property rights will arise in any situation in which the gains from having such rights exceed the costs of enforcing them. What are the gains from a property rights regime? What are some enforcement costs? Describe how these ideas might apply to:
  - The “enclosure” movement in medieval Europe
  - Development of property rights among Native Americans
  - Development of property laws relating to gold mines in California or diamond mines in Kimberly, South Africa
  - Separation of the radio spectrum into licensed “stations”.
4. In the study of remedies for violations of a property right, two cases are frequently compared: *Spur Industries v. Del E. Webb* and *Boomer v. Atlantic Cement*. These cases are available on the course web site. You should be in a position to briefly summarize the cases and describe how they relate to the optimal choice of remedies in property cases.
5. Your professor has had a running argument with Shavell about his section 2.8 on “...not necessarily private property”. He believes that the paragraph is largely gobbledygook – especially the sentence on “the protection of possessory rights” under socialism. Can you rescue this author from the claim he is writing nonsense?