\[ L(x, y) = \rho(x, y)D + A(x) + B(y) \]

\[ A_x = -p_x D \]

\[ B_y = -p_y D \]
The Law and Economics Program

This year marks the fiftieth anniversary of the formal study of law and economics at the University of Chicago Law School. The application of economic analysis to the study of legal institutions was a natural outgrowth of legal realism, which recognized in the 1920s that traditional legal thought was unduly formalistic and doctrinaire and thus held that the evaluation of legal doctrines and institutions should be open to analysis and input from such other disciplines as psychology, sociology, political science, anthropology and, especially, economics.

In 1939, the University of Chicago Law School became the first institution of legal education to appoint an economist, Henry Simons, as a full-time member of the faculty. The significance of this appointment was quickly apparent as law schools in the late 1930s and early 1940s began to offer a host of new courses, such as labor law and securities regulation, which grew out of the efforts of the national government to regulate the market. While traditional law teachers and scholars approached such courses by attempting to master the intricacies of these new areas of regulation, Henry Simons and his colleagues at the University of Chicago Law School began asking a different set of questions: What happens if government supports the price of milk? If it establishes a minimum wage? If it limits competition? What interested Simons and his colleagues at the Law School was not only what the law is, but what it should be, how it operates in practice and, perhaps most important, why.

The economic analysis of legal institutions attempts to understand and predict human choice in a world of scarce resources. It is premised on the assumption that individuals are rational maximizers of their satisfactions and that they will respond to incentives in such a way as to maximize those satisfactions. It tests legal rules and institutions against the implications of that assumption.

In the fifty years since the University of Chicago first appointed Henry Simons to its faculty, the Law School’s Program in Law and Economics has been graced by the likes of Nobel Laureates Milton Friedman and George Stigler; Judges Frank Easterbrook, Richard Posner, and Antonin Scalia; economists Dennis Carlton, Ronald Coase, Aaron Director, and William Landes; legal scholars Douglas Baird, Kenneth Dam, Richard Epstein, Daniel Fischel, and Edmund Kitch; and a host of other teachers and scholars whose work, building upon the central insights of economic analysis, has illuminated our understanding of such diverse areas of the law as anti-
trust, bankruptcy, torts, contracts, property, intellectual property, constitutional law, insurance, procedure, corporate takeovers, insider trading, international trade, banking, and commercial law.

Under the direction of Professor Daniel R. Fischel, the Law School's Program in Law and Economics continues to flourish. With generous funding from such institutions as the John M. Olin Foundation, the Sarah Scaife Foundation, the Lynde and Harry Bradley Foundation, and the Ameritech Foundation, the Program today has six central components. First, the Program provides essential research support for members of the faculty. In the 1987-88 academic year, members of the law faculty who received such support published more than a dozen scholarly works in the field of law and economics, including *The Economic Structure of Tort Law*, by William Landes and Richard Posner; Douglas Baird's "Loss Distribution, Forum Shopping, and Bankruptcy," in *The University of Chicago Law Review*; Geoffrey Miller's "The True Story of Carolene Products," in *The Supreme Court Review*; and Alan Sykes's "The Boundaries of Vicarious Liability," in the *Harvard Law Review*.

Second, the Program runs the Law and Economics Workshop, a seminar that meets approximately twelve times each year and at which distinguished scholars present papers to an always lively audience of students and faculty from the Law School, the Economics Department, and the Graduate School of Business. Recent paper presenters have included Professor Roberta Romano of the Yale Law School on "The Future of Hostile Takeovers," Professor Louis Kaplow of the Harvard Law School on "Legal Representation at Trial," and Professor Saul Levmore of the University of Virginia Law School on "Parliamentary Law, Majority Decisionmaking and the Voting Paradox."

Third, the Program supports several Law and Economics Fellowships each year. These Fellowships enable scholars from other universities to spend all or part of an academic year at the Law School to pursue their research and to interact with students and faculty alike. Fourth, the Program offers Law and Economics Fellowships each year to nine students, who participate in the Law and Economics Workshop and pursue independent research under the supervision of members of the faculty.

Fifth, the Law and Economics Program publishes two scholarly journals. The *Journal of Law & Economics*, which is edited by William Landes, Dennis Carlton, and Frank Easterbrook, focuses on the effects of laws, legal institutions and economic regulation on economic behavior. The *Journal of Legal Studies*, which is edited by Richard Epstein and Geoffrey Miller, emphasizes the application of social science theory and research techniques to the analysis of legal doctrine in such diverse areas as torts, contracts, family law, civil and criminal procedure, criminal law, and legal history. Finally, the Program sponsors the Henry Simons Lecture, which has been delivered by such distinguished scholars as Milton Friedman, George Stigler, James Tobin and Gary Becker, and will be delivered next by Sherwin Rosen, the Edwin A. and Betty L. Bergman Professor and Chairman of the Department of Economics, in the 1989-90 academic year.

For half a century, the University of Chicago Law School has been at the center of the study of law and economics. It has been a productive, exciting, influential and often highly controversial fifty years. But if imitation is the sincerest form of flattery, Henry Simons, Aaron Director, Ronald Coase and their successors have ample reason to be proud, for no serious scholar, teacher, lawyer, legislator or judge can today approach such basic subjects as torts, contracts, antitrust or corporations without an understanding of the economic analysis of law or without acknowledging a very real debt to the extraordinary intellectual contributions of the University of Chicago Law School's Program in Law and Economics.