Economic Challenges for the Law of Contract

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Abstract

*This Essay introduces general equilibrium theory (GET) and mechanism design theory (MD) in a general sense (rather than in piece meal applications) to the study of contract law. As a positive matter, this introduction reveals three understudied areas: (i) when the equilibrium contract is individually rational but collectively irrational; (ii) what is the role of courts in market completion projects; and (iii) how to implement renegotiation-proof contracts. As a normative matter, this Essay has two main implications. First, it shows that formalist interpretative practices are more efficient than contextualist interpretative practices. Second, given that the ex ante negative effects of renegotiation are likely to dominate the ex post benefits, the law of contract modification should be reformed accordingly.*

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