

1: Law Of Supply And Demand

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Because of the overlap between legal systems and political systems, some of the issues in law and economics are also raised in political economy, constitutional economics and political science. For example, research by members of the critical legal studies movement and the sociology of law considers many of the same fundamental issues as does work labeled "law and economics," though from a vastly different perspective. The one wing that represents a non-neoclassical approach to "law and economics" is the Continental mainly German tradition that sees the concept starting out of the governance and public policy Staatswissenschaften approach and the German Historical school of economics; this view is represented in the Elgar Companion to Law and Economics 2nd ed. Origin and history[edit] As early as in the 18th century, Adam Smith discussed the economic effects of mercantilist legislation. However, to apply economics to analyze the law regulating nonmarket activities is relatively new. Hayek in the U. Attorney General in the Ford administration. He died September 11, , at his home in Los Altos Hills, California, ten days before his 87th birthday. In the early 1960s, Henry Manne a former student of Coase set out to build a center for law and economics at a major law school. He began at Rochester, worked at Miami, but was soon made unwelcome, moved to Emory, and ended up at George Mason. The last soon became a center for the education of judges—many long out of law school and never exposed to numbers and economics. Manne also attracted the support of the John M. Olin Foundation, whose support accelerated the movement. Today, Olin centers or programs for Law and Economics exist at many universities. Positive and normative law and economics[edit] Economic analysis of law is usually divided into two subfields: So, for example, a positive economic analysis of tort law would predict the effects of a strict liability rule as opposed to the effects of a negligence rule. Positive law and economics has also at times purported to explain the development of legal rules, for example the common law of torts, in terms of their economic efficiency. Normative law and economics[edit] Normative law and economics goes one step further and makes policy recommendations based on the economic consequences of various policies. The key concept for normative economic analysis is efficiency, in particular, allocative efficiency. A common concept of efficiency used by law and economics scholars is Pareto efficiency. A legal rule is Pareto efficient if it could not be changed so as to make one person better off without making another person worse off. A weaker conception of efficiency is Kaldor-Hicks efficiency. A legal rule is Kaldor-Hicks efficient if it could be made Pareto efficient by some parties compensating others as to offset their loss.

2: Say's Law Of Markets

The law and finance theory holds that legal traditions differ in terms of the priority they attach to protecting the rights of private investors vis-a-vis the State and this has important implications for financial development.

This has been blamed for contributing to the frequent recessions up to the Great Depression and for the collapse of banks. The Securities and Exchange Commission told President Franklin Roosevelt that he should get rid of it, which he did in 1934. To understand the original practice, consider that a futures trader, when beginning an account or "position", deposits money, termed a "margin", with the exchange. This is intended to protect the exchange against loss. At the end of every trading day, the contract is marked to its present market value. If the trader is on the winning side of a deal, his contract has increased in value that day, and the exchange pays this profit into his account. On the other hand, if the market price of his contract has decreased, the exchange charges his account that holds the deposited margin. If the balance of this account becomes less than the deposit required to maintain the account, the trader must immediately pay additional margin into the account in order to maintain the account a "margin call". The Chicago Mercantile Exchange, doing even more, marks positions to market twice a day, at Market values are, therefore, not objectively determined or available readily purchasers of derivative contracts are typically furnished with computer programs which compute market values based upon data input from the active markets and the provided formulas. During their early development, OTC derivatives such as interest rate swaps were not marked to market frequently. Deals were monitored on a quarterly or annual basis, when gains or losses would be acknowledged or payments exchanged. As the practice of marking to market became more used by corporations and banks, some of them seem to have discovered that this was a tempting way to commit accounting fraud, especially when the market price could not be determined objectively because there was no real day-to-day market available or the asset value was derived from other traded commodities, such as crude oil futures, so assets were being "marked to model" in a hypothetical or synthetic manner using estimated valuations derived from financial modeling, and sometimes marked in a manipulative manner to achieve spurious valuations. The most infamous use of mark-to-market in this way was the Enron scandal. After the Enron scandal, changes were made to the mark to market method by the Sarbanes-Oxley Act during 2002. The Act affected mark to market by forcing companies to implement stricter accounting standards. The stricter standards included more explicit financial reporting, stronger internal controls to prevent and identify fraud, and auditor independence. The Sarbanes-Oxley Act also implemented harsher penalties for fraud, such as enhanced prison sentences and fines for committing fraud. Although the law was created to restore investor confidence, the cost of implementing the regulations caused many companies to avoid registering on stock exchanges in the United States. Section 302 provides that qualified securities dealers who elect mark to market treatment shall recognize gain or loss as if the property were sold for its fair market value on the last business day of the year, and any gain or loss shall be taken into account for that year. The section also provides that dealers in commodities can elect mark to market treatment for any commodity or their derivatives which is actively traded i. Those investments are to be classified in three categories and accounted for as follows: Debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as "held-to-maturity" securities and reported at amortized cost less impairment. Amortization refers to spreading payments over multiple periods. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as "trading" securities and reported at fair value, with unrealized gains and losses included in earnings. A narrow exception is made to allow limited held-to-maturity accounting for a not-for-profit organization if comparable business entities are engaged in the same industry. Please help improve this article by adding citations to reliable sources. Unsourced material may be challenged and removed. Clarity of the definition of fair value; A fair value hierarchy used to classify the source of information used in fair value measurements i. FAS defines "fair value" as: FAS only applies when another accounting rule requires or permits a fair value measure for that item. While FAS does not introduce any new requirements mandating the use of fair value, the definition as outlined does introduce certain important differences. First, it is based on

the exit price for an asset, the price at which it would be sold bid price rather than an entry price for an asset, the price at which it would be bought ask price, regardless of whether the entity plans to hold the asset for investment or resell it later. Second, FAS emphasizes that fair value is market-based rather than entity-specific. Thus, the optimism that often characterizes an asset acquirer must be replaced with the skepticism that typically characterizes a dispassionate, risk-averse buyer. The hierarchy ranks the quality and reliability of information used to determine fair values, with level 1 inputs being the most reliable and level 3 inputs being the least reliable. Information based on direct observations of transactions e. A typical example of the latter is shares of a privately owned company the value of which is based on projected cash flows. This can occur when a company is forced to calculate the selling price of these assets or liabilities during unfavorable or volatile times, such as a financial crisis. During April, however, the Financial Accounting Standards Board FASB voted on and approved new guidelines that would allow for the valuation to be based on a price that would be received in an orderly market rather than a forced liquidation, starting during the first quarter of Although FAS does not require fair value to be used on any new classes of assets, it does apply to assets and liabilities that are recorded at fair value in accordance with other applicable rules. The accounting rules for which assets and liabilities are held at fair value are complex. Mutual funds and securities companies have recorded assets and some liabilities at fair value for decades in accordance with securities regulations and other accounting guidance. For commercial banks and other types of financial services companies, some asset classes are required to be recorded at fair value, such as derivatives and marketable equity securities. For other types of assets, such as loan receivables and debt securities, it depends on whether the assets are held for trading active buying and selling or for investment. All trading assets are recorded at fair value. Loans and debt securities that are held for investment or to maturity are recorded at amortized cost, unless they are deemed to be impaired in which case, a loss is recognized. However, if they are available for sale or held for sale, they are required to be recorded at fair value or the lower of cost or fair value, respectively. Notwithstanding the above, companies are permitted to account for almost any financial instrument at fair value, which they might elect to do in lieu of historical cost accounting see FAS, "The Fair Value Option". Thus, FAS applies in the cases above where a company is required or elects to record an asset or liability at fair value. The rule requires a mark to "market," rather than to some theoretical price calculated by a computer "a system often criticized as "mark to make-believe. Sometimes, there is a weak market for assets which trade relatively infrequently - often during an economic crisis. During these periods, there are few, if any buyers for such products. This complicates the marking process. In the absence of market information, an entity is allowed to use its own assumptions, but the objective is still the same: In developing its own assumptions, the entity can not ignore any available market data, such as interest rates, default rates, prepayment speeds, etc. FAS does not distinguish between non cash-generating assets, i. The latter cannot be marked down indefinitely, or at some point, can create incentives for company insiders to buy them from the company at the under-valued prices. Insiders are in the best position to determine the creditworthiness of such securities going forward. In theory, this price pressure should balance market prices to accurately represent the "fair value" of a particular asset. Purchasers of distressed assets should buy undervalued securities, thus increasing prices, allowing other Companies to consequently mark up their similar holdings. Also new in FAS is the idea of nonperformance risk. FAS requires that in valuing a liability, an entity should consider the nonperformance risk. If FAS simply required that fair value be recorded as an exit price, then nonperformance risk would be extinguished upon exit. However, FAS defines fair value as the price at which you would transfer a liability. In other words, the nonperformance that must be valued should incorporate the correct discount rate for an ongoing contract. An example would be to apply higher discount rate to the future cash flows to account for the credit risk above the stated interest rate. The Basis for Conclusions section has an extensive explanation of what was intended by the original statement with regards to nonperformance risk paragraphs CC This can create problems in the following period when the "mark-to-market" accrual is reversed. Marking-to-market a derivatives position[edit] In marking-to-market a derivatives account, at pre-determined periodic intervals, each counterparty exchanges the change in the market value of their account in cash. When using models to compute the ongoing exposure, FAS requires that the entity consider the

default risk "nonperformance risk" of the counterparty and make a necessary adjustment to its computations. Marking-to-market virtually eliminates credit risk, but it requires the use of monitoring systems that usually only large institutions can afford. These accounts allow clients to borrow funds to buy securities. Therefore, the amount of funds available is more than the value of cash or equivalents. The credit is provided by charging a rate of interest and requiring a certain amount of collateral, in a similar way that banks provide loans. Even though the value of securities stocks or other financial instruments such as options fluctuates in the market, the value of accounts is not computed in real time. Marking-to-market is performed typically at the end of the trading day, and if the account value decreases below a given threshold typically a ratio predefined by the broker, the broker issues a margin call that requires the client to deposit more funds or liquidate the account. Fair value accounting and the subprime mortgage crisis Former Federal Deposit Insurance Corporation Chair William Isaac placed much of the blame for the subprime mortgage crisis on the Securities and Exchange Commission and its fair-value accounting rules, especially the requirement for banks to mark their assets to market, particularly mortgage-backed securities MBS. The intent of the standard is to help investors understand the value of these assets at a specific time, rather than just their historical purchase price. Because the market for these assets is distressed, it is difficult to sell many MBS at other than prices which may or may not be representative of market stresses, which may be less than the value that the mortgage cash flow related to the MBS would merit. As initially interpreted by companies and their auditors, the typically lesser sale value was used as the market value rather than the cash flow value. Many large financial institutions recognized significant losses during and as a result of marking-down MBS asset prices to market value. For some institutions, this also triggered a margin call, such that lenders that had provided the funds using the MBS as collateral had contractual rights to get their money back. Markdowns may also reduce the value of bank regulatory capital, requiring additional capital raising and creating uncertainty regarding the health of the bank. On September 30, , the SEC and the FASB issued a joint clarification regarding the implementation of fair value accounting in cases where a market is disorderly or inactive. This guidance clarified that forced liquidations are not indicative of fair value, as this is not an "orderly" transaction. Further, it clarifies that estimates of fair value can be made using the expected cash flows from such instruments, provided that the estimates represent adjustments that a willing buyer would make, such as adjustments for default and liquidity risks. On April 2, , after a day public comment period and a contentious testimony before the U. To proponents of the rules, this eliminates the unnecessary " positive feedback loop" that can result in a weakened economy. Early adopters were allowed to apply the ruling as of March 15, , and the rest as of June 15, Kothari and Karthik Ramanna , have made similar arguments.

3: Law, endowments, and finance

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4: Mark-to-market accounting - Wikipedia

Abstract. Having grown to one of the largest in the world in just over two decades, China's stock market is cited as a counterexample to the significance of law for financial market development.

5: Law of demand (video) | Demand | Khan Academy

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Say's law of markets is a classical economic theory that says that production is the source of demand. According to Say's law, the ability to demand something is financed by supplying a different.

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8: "Law and Finance: The Case of Stock Market Development in China" by Zhong Zhang

Financial firms had collectively spent \$bn preparing for MiFID 2 in alone, according to one estimate by Expand, part of the Boston Consulting Group, and IHS Markit, a data provider.

9: Banking, Corporate, and Finance Law | Fordham

The law of supply and demand does not apply just to prices. It also can be used to describe other economic activity. For example, if unemployment is high, there is a large supply of workers.

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