

Chapter 23 #1: Why is alimony given for specific investment?

*This is because if one of the spouses invests specifically in bearing and bringing up children, then she goes out of the market and loses opportunities. If in case of divorce she wasn't supported by the husband, she would be scared and not undertake this investment. In that case child bearing would be postponed or cancelled. Therefore, alimony acts as insurance against the risk of divorce and the reduction in marketability due to the specialization in household activities.*

Chapter 23 #2: What is the difference between lump-sum and periodic payments until remarriage? What are the factors that determine when one is more appropriate than the other?

*Periodic payments of alimony are payments that occur on specific intervals (e.g. per month) and are supposed to help the financially-weaker spouse to maintain a certain standard of living until remarrying. A lump sum payment is calculating the present value of all the periodic payments until the expected time of remarriage and providing the spouse upfront with this amount.*

Chapter 23 #3: If the engagement is called off, should the woman get to keep the ring? What if the man had an affair with an old flame?

*One approach is to ask who would end up with the ring if transaction costs were low. If the ring is a family heirloom, it should be given back since that ring would almost always be more valued by the original owner. If the original owner has more use/benefits from the ring than another, that individual should get it.*

*However, if the man had an affair with an old flame randomly (the old flame was out of the picture until just about when the fair occurred), then we can have a decision akin to comparative negligence rule in which the negligent party is liable for the damages. However, if the old flame is there for a while and the fiancé knew that the man have been seeing each other even before they were engaged, then whoever has more use for the ring (or who would obtain more benefit from having it) should have it.*

Chapter 23 #4: Using economics, who should be the parents of Daniel B. (discussed in the gray box?)

*It is more costly to undergo another pregnancy to have a child compared to the cost of losing a fertilized embryo. Therefore, the legal parent should be Susan.*

Chapter 23 #5: Explain who wins and who loses under polygamy in comparison to a situation outlawing polygamy.

*In case of polygyny, men lose out because some men will be left without any wife. The demand for women will move to the right and the price of women will be more expensive. Therefore, the wealthier men will get more women and the poorer will be left with none.*

Chapter 23 #6: Many women seek abortions. Other couples seek children to adopt. It is generally the case that buying babies is illegal, but couples may pay for medical care expenses faced by the pregnant mother.

What would happen if baby selling were made legal? When baby selling is illegal, supply and demand still operate, but in different ways. Explain.

*If baby selling were legal, the supply of babies would move to the right and the price of babies would go down. The market would operate without limitations. When baby selling is illegal the price of the baby that would otherwise go to the mother, is going to be paid to other intermediaries (agencies, lawyers etc.).*