Remedies for Breach

Three Principles

• There are occasions when we want people to breach contracts.

• But they should pay damages as a deterrence to breach when it is not optimal.

At the same time, we want to avoid over-reliance on contracts.

Some Measures of Damages

• Expectation Damages
  – Restoring the injured party to where he would be had the contract been performed.

Three Measures of Damages

• Expectation Damages
• Reliance Damages
  – Compensating the injured party for any out of pocket costs incurred because of the contract. That is, making him as well off as he would be without the contract.
Three Measures of Damages

- Expectation Damages
- Reliance Damages
- Opportunity Cost
  - Restoring the injured party to where he could have been had he made another contract.

A Night at the Opera

- Acme Ticket Agency offers to sell John opera tickets at a price $p_a$. Acme buys the tickets for $p_w$. Acme breaches and John must pay a scalper $p_s$.
  - Expectation damages
    - John is out $p_s - p_a$.

- Acme Ticket Agency offers to sell John opera tickets at a price $p_a$. Acme buys the tickets for $p_w$. Acme breaches and John must pay a scalper $p_s$.
  - Expectation damages
    - John could have bought from Bijou for $p_b$. Reliance damages are $p_s - p_b$.

The Cancelled Party

- John contracts with Sam for a party. Cost = $1000, Profit = $600.
  - Expectation damages
  - Reliance Damages.
  - Opportunity cost.
    - John has prepaid for a limo for the evening. He is out $p_L$.
The Cancelled Party

• John contracts with Sam for a party. Cost = $1000, Profit = $600.
• Before John cancels, Sam has bought $300 of food, which he resells for $200.

The Cancelled Party

• John contracts with Sam for a party. Cost = $1000, Profit = $600.
• Before John cancels, Sam has bought $300 of food, which he resells for $200.
• If Sam had not taken this job, he would have gotten a job with a profit of $450

Expectation damages = $700; the $600 lost profit and the $100 lost on the food.

Reliance damages = $100, what Sam lost on the food.

Opportunity Cost = $550, $100 for the food and $450 lost profit.

The Injured Hand

• Mr. Hawkins has a badly scared hand. A doctor persuades him, at age 18, to undergo an operation, which will make the hand perfect.
The Injured Hand

- Mr. Hawkins has a badly scared hand. A doctor persuades him, at age 18, to undergo an operation, which will make the hand perfect.
- He forgoes an operation which would make the hand better, but not perfect.

So, how much?

Three indifference curves between other goods and quality of the hand. They go through different states of the hand.

Reliance Damages
The Problems

• Expectation Damages are sometimes hard to measure
  – What is the value of a perfect hand?
• They may lead to over-reliance.