

Name

Abstract 2

Title: Choi, A. H., & Spier, K. E. (2014). Should consumers be permitted to waive product liability? Product safety, private contracts, and adverse selection.

Purpose: The article aims to show that the US's current product liability law is unfriendly towards manufacturers as they incur high losses from actions resulting from the law. This argument applies to competitive markets where buyers know the likelihood of harm related to the product at the time of sale. Besides, the consumer's underlying features or lifestyle, such as alcohol consumption, may increase the chances of product-related harm when consuming some drug prescriptions.

Problem: The problem described in the article is that product liability law is an expensive approach; thus, consumers and manufactures should be permitted to choose their liability regime. The current strict liability affirms that any harm resulting from a faulty product should result in a form of penalty. Besides, many claims are settled in court, and it is more expensive for clients to follow up their claims and for producers to shield against the accusations. As such, a market-based system as an alternative will be less costly and will enable manufacturers to modify to customers' diverse preferences over safety and accountability.

Procedure: Product liability implies that producers are held responsible for harm that results from their products. Strict liability torts disadvantage manufacturers as they involve characteristically dangerous actions as a producer may be liable no matter how careful he/she performs these actions. When the consumer suffers injury from the product, he or she may sue the manufacturer. As such, product liability is only appropriate when clients misjudge product-related threats, and the law would be pointless if the safety of the product is easily applied. Nevertheless, this policy's effective application is meant to promote social welfare by protecting consumers from harm that can be prevented.

Results: The article finds that a sufficient product liability would imply that it is resourceful for both the low and high-risk buyers to buy the product and that the low-risk buyers will value the product. This benefit can be attained by implementing a less than full liability, which discourages high-risk clients from buying the item. Consequently, this approach would also attract low-risk consumers, and this would be a fair policy for both manufacturers and buyers.

Conclusion: The article has analyzed a moral hazard that involves a likelihood that product-related injuries result partly from unobserved safety precautions by producers. Nevertheless, an adverse selection problem where certain consumers are at high risk than others also complicates the implementation of the product liability tort. As such, the problem can be applying a less strict liability to discourage high-risk buyers from the market and accommodate these who are less prone to product-related harm. In this case, social policy will effectively promote social welfare.