

# Efficient Liability Rules: Complete Characterization\*

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## Abstract

A complete characterization of efficient liability rules is obtained. A condition called negligence liability is introduced and is shown to be necessary and sufficient for any liability rule to be efficient. The framework within which the efficiency problem is analyzed is quite general. No significant restrictions are imposed on costs of care and expected loss functions other than the requirement that they be such that the minimum of total social costs exists. In particular, it is not assumed that there is a unique configuration of costs of care at which total social costs attain their minimum.

Key Words: Liability Rules, Total Social Costs, Efficient Liability Rules, Condition of Negligence Liability, Nash Equilibria

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