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The Effect of Legal Rules on the Value of Economic and Non-Economic Damages and the Decision to File

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Abstract

This study focuses on the economic consequences of tort reform. In particular, we address two issues. First, we test the relationship between tort reforms and claim severity for an automobile liability incident while controlling for a variety of cost drivers including the presence of no-fault rules, and the impact of a plaintiff's attorney. In addition to examining the effect of tort reforms on total claim severity, we also test their effect on economic and non-economic damages separately. Second, we test the proposition that tort reforms, by reducing the damages available at trial, have reduced the likelihood that an injured party will seek legal remedy. Both aspects of this study are examined with individual data from a large


sample of insurance claims from 61 insurers. Our results suggest that many of the reforms have had a statistically significant effect on total damages, non-economic damages and economic damages. Caps on non-economic damages, collateral source rule reforms, and minor reforms impacting prejudgment interest, frivolous suits, and provisions for periodic payments are negatively related to the value of non-economic claims, while joint and several reform is positively related to the value of non-economic claims. We find collateral source rule reforms and minor reforms are negatively related to the value of economic claims. We find that caps on non-economic damages and minor reforms are associated with a decreased probability to file. We do not find any evidence that joint and several or collateral source rule reform is associated with the decision to file.

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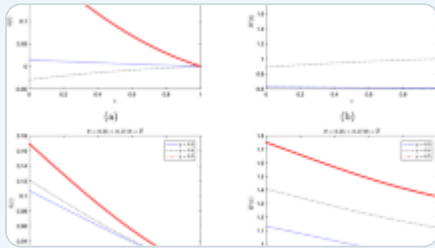
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