

REGULATORY DECISION ERRORS, LEGAL UNCERTAINTY AND WELFARE: A GENERAL TREATMENT

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H i g h l i g h t s

- Legal Uncertainty relates to information structures.
- Legal Uncertainty is not the same as decision errors.
- Decision errors neither necessary nor sufficient for legal uncertainty.
- Welfare strictly decreasing in extent of decision errors.
- Welfare can be higher with legal uncertainty than with no legal uncertainty.

We provide a general treatment of the implications for welfare of various sources of legal uncertainty facing agents about the decisions made by a regulatory authority. We distinguish the legal uncertainty from the *decision errors* made by the authority. While an increase in *decision errors* will always reduce welfare, for any given level of *decision errors*, information structures involving *more* legal uncertainty can improve welfare. This holds always when sanctions are set at their optimal level. This transforms radically one's perception about the “costs” of legal uncertainty. We also provide general proofs for two results, previously established under restrictive assumptions.

The full working paper can be found [here](#).