**Breach of Contract - Jones Auto Parts**

Jones Auto Parts entered into a contract with Smith Automotive Company to deliver parts for a new model car that Smith Automotive plans to produce next year. The contract called for Jones to deliver 50,000 units at a unit price of $1.00. Smith would pay Jones for the parts when they were delivered. Jones planned to produce the units for 90 cents each and earn a profit of 10 cents on each unit. At the time Smith contracted with Jones, there were several other companies that were offering parts of identical quality at $1.01 per unit.

Expecting to receive the parts from Jones, Smith purchased a special tool that cost $100 for finishing the parts ordered from Jones.

After Jones Parts entered into the contract, it learned that the cost of raw materials used for manufacturing the ordered parts had risen significantly. Instead of making a profit of 10 cents on each unit, it would now take a loss of 10 cents on each unit. Consequently, Jones Parts has informed Smith Automotive that it now intends to breach the contract it had entered into with Smith and not deliver the ordered parts.

Smith has responded by seeking damages for Jones’ breach of contract. Smith has attempted to mitigate its loss by seeking an alternative contractor. Hudson Parts has agreed to provide the needed parts at $1.03 a unit. The parts, however, are not of the same high quality that Jones had promised to deliver. Smith claims that it will add an additional 2 cents in production costs for each of the Hudson parts that it installs. In addition, it has cost Smith an additional $500 to negotiate the new contract with Hudson. This is the same amount it cost Smith in legal fees in order to negotiate the original contract with Jones.

Smith also claims that the specialized part it had ordered to work on the parts from Jones is of no help in processing the parts from Hudson. The increased production costs do not include the cost of this now useless tool.

**Answer all of the following questions in your essay:**

1. If Jones breaches what are
   a. Smith’s expectation damages? Explain.
   b. Smith’s reliance damages? Explain
   c. Smith’s opportunity cost damages? Explain

2. Is Jones’ breach an efficient breach of contract? Explain

3. Would forcing specific performance on Jones be inefficient? Explain. (You might want to consider the possibility of a Coasian bargain.)