

# Worksheet 5 – Environmental Policy in the Central European Context course

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We advise you to work through the following problems / questions well and as a group (make sure though that no one is free-riding); it's the ticket to performing reasonably well on the exams (and to not be stressed out by the exams which will be tuff, tuff, tuff! ☺) Please submit this problem set in writing; feel, however, free to submit jointly. Submit on the day of the mid-term.

1. Work through the numerical example of sections III and IV in **Coase, R. (1960), The problem of social cost. Journal of Law and Economics 3, 1 – 44**: the problem of the farmer vs. the cattle-raiser; p. 2-8. Make sure to understand all the math and economic intuition of the example.
2. Work through the numerical example of section VIII in **Coase, R. (1960), The problem of social cost. Journal of Law and Economics 3, 1 – 44**: the problem of railways' liability for crops damage; p. 32-33. Make sure to understand all the math and economic intuition of the example.
3. Explain why costless negotiation/zero transaction cost is one of the key assumptions of Coase's Theorem. Provide a simple example (feel free to use specific numbers if that makes it easier to make your argument), where the initial assignment of property rights (or, the liability for damage) will make a difference.
4. Discuss what difference one might intuitively expect between the results from the sequential and the non-sequential setting in H&S experiment. Is the intuitive prediction confirmed by the data? Discuss.
5. Briefly summarize the main results of H&S. Do H&S find strong support for Coase's Theorem? Is there any result that would disprove Coase's Theorem behaviorally? Discuss.
6. Go through the "POLICY IMPLICATIONS EXAMPLE" from the Lecture 5 notes , pp. 14-15 that we did not have time to go through during the lecture, or pp. 96-98 in H&S.
7. Briefly summarize H&M's main objective? Which of the H&S results do they question and how do they try to prove behavioral relevance of Coase's Theorem; i.e. what are the most important modifications in their experimental design?
8. Briefly summarize the main result(s) of H&M. Explain why their results do confirm the behavioral relevance of Coase's Theorem, especially in contrast to the results by H&S.