

## Lecture 5 (AO, 29 October 2009) - worksheet

### Environmental Policy in the Central European Context

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### Undergraduate Program in Central European Studies

CERGE-EI and the School of Humanities at Charles University

1. Recall Figure 17.6. in Schotter's textbook. Explain the market outcomes with and without externality. Also explain how the Demand curve and the Cost curves come about. (I.e., are they God given or does an experimenter induce them? How?)

2. How do pollution tax, pollution standard and pollution licenses compare as methods for correcting the externality?
3. Explain why in Plott's laboratory market, for the case of "licence policy", the externality problem is seemingly solved after the first four or five rounds.
4. Briefly explain the purpose of the Virginia NOx allowance auction.
5. Explain why there are at least 6 different auction types for the Virginia NOx allowance auction that needed to be studied experimentally. (Carefully distinguish auction mechanism, pricing rule, and simultaneous [combinatorial]/sequential set-up).
6. Assume that there are three bidders that have WTP of 10, 8, and 6 for a homogeneous good of which two units (inelastic supply) are being offered. Explain why the expected revenue of a sealed-bid auctions and a standard ascending clock auction might lead to different revenue predictions. Looking at this simple example, which seems to be the preferable auction style (from the perspective of the supplier)?
7. What do Porter et al find experimentally? Why might that be?
8. Why do secondary markets influence the demand curves on primary markets like the NOx allowance auction? Why is it relatively easy for an experimenter to test this?
9. In the case of the Virginia NOx allowance auction, why did the 2004 allowance end up being less expensive than the 2005 allowance auctions. Does that make any sense?
10. What is the EU ETS?
11. What happened in May 2006 to the prices of EUAs and why did it happen?
12. What are possible explanations for this collapse in price?
13. What distinguishes the second phase of the EU ETS from the first phase?
14. Why is auctioning off (rather than "grand-fathering") EUAs not necessarily a bad thing, even if that means that consumers might have to pay higher prices (initially) for, say, electricity?