

Worksheet 2 (for Lecture 2) – Environmental Policy in the Central European Context course

I 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. Number of points indicates the expected scope of the answer (should roughly correspond to time in minutes).

1. [15 points] What is the Environmental Kuznets Curve? Where does its name come from? And what is the basic functional relationship claimed? What are the possible explanations for the existence of such a relationship (I'm sure you should remember at least three ☺)? Summarize, in your words, the critique of the EKC.
2. [5 points] Solve Problem 1 from Schotter's textbook, 2nd edition, p. 585 (in the 3rd edition it is Problem 1 on p. 651).
3. [5points] Explain why tax policy doesn't do a very good job in enhancing innovation and investment into cleaner technologies. Which of other measures/policies that we discussed would do a better job? Explain.
4. [10 points] Explain what are the possible problems with implementing Pigouvian taxes and Standards and charges? Illustrate with a real-world example.
5. [20 points] Briefly summarize the main objectives and main results of Plott (1983). How does he model externality in his experimental market? Describe how are the individual interventionist solutions implemented in his experimental market? Why are the results for the standards solution noisy?
6. [20 points] Briefly summarize the main objectives and the main findings in Cason and Gangadharan (2002). Also
 - a. Why do you think the initial periods of REPUTATIONS ONLY are not significantly different than BASELINE but then, in later periods the production of SUPERS increases (in REPs ONLY)?
 - b. Explain intuitively why the cheap-talk signals in the early periods increase the production of SUPERS but then in time the effect disappears?
 - c. Is there any problem in the last period of REPUTATIONS ONLY? Why does this problem not exist with certification?
 - d. Why do you think certification is much more efficient in increasing the production of SUPERS?
7. [10 points] Do you think that in the real world a third party certification is a way to improve environmental quality? How good a job can cheap-talk signals from companies with well established reputation do?