

Worksheet 3 (for lecture 3) – 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.

1. Problem 1 from Schotter, p. 585.
2. Problem 2 from Schotter, p. 585.
3. Problem 5 from Schotter, p. 586.
4. What are the problems with implementing Pigouvian taxes and Standards and charges? Illustrate with a real-world example. Can you think of some real-world examples, when these problems are absent and thereby these non-interventionist solutions can easily be implemented?
5. Briefly summarize the main objectives and main results of Plott (1983). How does he model externality? How are the individual non-interventionist solutions implemented in his experimental market? Why are the results for the standards solution noisy (can you think of reasons other than those that the author discusses)?
6. Show (similar to how we did it in class for the water-paper society) why the competitive outcome in Plott's market (point B) is not Pareto Optimal. Discuss why point A is efficient (as regards the distribution of costs and benefits in the experimental society).
7. 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?