

## Worksheet 3, October 10, 2017

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. **[10 points]** Explain what are the possible (practical) problems with implementing Pigouvian taxes and Standards and charges? Explain within the real-world context.
2. **[20 points]** Briefly summarize the main objectives and main results of Plott (1983). Also explain:
  - a. How does the author model externality in his experimental market?
  - b. How are the individual interventionist solutions implemented in his experimental market?
  - c. Why are the results for the standards solution noisy?
3. **[10 points]** "Among economists at least, the use of tradable emission allowances under an aggregate emission cap is generally considered a mature policy technology. It has become the default policy option in controlling a variety of large scale air emissions and is being increasingly considered for replacing inefficient source-specific regulation of water pollutants." [Porter et al. p.190] Discuss.
4. **[10 points]** What is EU ETS? Briefly describe how it works, what are the main features.
5. **[10 points]** What happened in 2006/2007 to the prices of EUAs and why did it happen? What happened in 2009/10 and why did it happen? What is the difference behind the two seemingly same market outcomes?
6. **[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.