

Worksheet 4&5, March 15 and 22, 2016

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]** 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?
2. **[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 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?
3. **[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? Summarize, in your words, the critique of the EKC.
4. **[10points]** Recall the airplane experiment that we run. Which economic problem did the game that you played represent? What was the main difference between the rounds 1 and 2? What was the (expected) consequence of the modification that we introduced in round 2 for the results? Explain the results in the context of the theory.
5. **[10 points]** 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. Explain.
6. **[5 points]** 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.
7. **[10 points]** Briefly summarize the main results of Hoffman & Spitzer (H&S). Do H&S find strong support for Coase's Theorem? Is there any result that would disprove Coase's Theorem behaviorally? Explain.
8. **[15 points]** 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. which are the most important modifications in their experimental design? Which are the main results of H&M? Explain why their results do confirm the behavioral relevance of Coase's Theorem, especially in contrast to the H&S's results.