

Worksheet 4, March 24-March 31, 2020

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).

PLEASE SUBMIT VIA EMAIL BY MARCH 31, CLASS TIME.

1. **[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.
2. **[10 points]** Summarize in your own words the essence of a Coase theorem. Which are the most obvious difficulties connected with its ability to solve environmental problems in the real life? Provide an example of a real-life situation, where it would likely work to improve market outcome and provide a contrary example of a real-life situation, where it is much more likely to fail (and briefly explain why).
3. **[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.
4. **[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.
5. **[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.
6. **[10 points]** What is the Environmental Kuznets Curve? What is the basic functional relationship claimed? What are the possible intuitive explanations for the existence of such a relationship (briefly explain each)? Briefly summarize the critique of EKC.