

Worksheet 4, October 25, 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.