

Worksheet 4, October 20, 2015

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. **[5 points]** Assume that there are three bidders that have willingness to pay of 10, 8, and 6 for a homogeneous good of which two units (inelastic supply) are being offered. Explain why the expected revenue of a (first-price) sealed-bid auctions and a standard ascending (English) clock auction might lead to different revenue predictions. Looking at this simple example, which seems to be the preferable auction style (from the perspective of the supplier)?
2. **[5 points]** Briefly explain the purpose of the Virginia NOx allowance auction. What is the policy advice would you generally give based on experimental results?

[The first two belong to Lecture 3 but they got lost :-) I apologize for that]

3. **[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?
4. **[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 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?
5. **[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 consequence of the modification that we introduced in round 2 for the results? Explain the results in the context of the theory.
6. **[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.