

Worksheet 4 – Environmental Policy in the Central European Context course

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 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.
2. **[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.
3. **[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? Discuss.
4. **[10 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. what are the most important modifications in their experimental design?
5. **[5 points]** Briefly summarize the main result(s) of H&M. Explain why their results do confirm the behavioral relevance of Coase's Theorem, especially in contrast to the results by H&S.