

Worksheet 5, March 17, 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 exam. Number of points indicates the expected scope of the answer (should roughly correspond to time in minutes).

1. **[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.
2. **[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.
3. **[10 points]** "The search for meaningful environmental protection is a search for ways to enhance property rights and markets." (Yandle et al., p. 18) Discuss.
4. **[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.
5. **[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.