

## Worksheet 6 (for lecture 6) – 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.

1. What is the ISO 14001 and why, in Potoski & Prakash's terminology, can it be considered a weak sword? (Summarize Table 1 in their article.)
2. There are important direct and indirect costs (recall the "check list for implementing ISO 14001 management systems") to being certified by ISO 14001. What are the benefits of ISO 14001 certification that might justify those costs? Answer this question also in terms of some of the regression results (e.g. those on compliance).
3. Summarize the basic design of Potoski & Prakash's JPAM study on the ISO 14001 and facilities' environmental performance.
  - a) What are the dependent variables?
  - b) What is the main methodological problem that the authors face and how do they solve it? (Why are there are (at least) two regression models that they have to estimate?)
  - c) What are the independent variables in these two models? Provide some intuitive explanation, why (and how) these variables should affect the dependent variables.
4. What are some of Potoski & Prakash's noteworthy empirical results (in the JPAM study)? Formulate a conjecture about the compliance results that they find.
5. Summarize the study by Evans et al.: Why might a firm's internal organizational have influence on the firm's environmental performance/compliance? Specifically, why might the fact that division managers might "play" a rank-order tournament game (what is that anyways) be important?
6. Why might an increasing number of division managers lead to more environmental performance/noncompliance? What are some other intuitive comparative-static predictions of the underlying model (e.g., effects of the payoffs of the tournament, the probability of cheating being detected, the penalty for cheating)?
7. Evans et al.: "Our results are generally supportive of the theory ... "Discuss this statement in light of the evidence in Tables 13.2 and 13.3.