

Problem Set #2

Due Friday, March 12 to TA at 9 am.

This problem set is an effort to encourage you to review the intermediate microeconomics concepts and tools that are used to evaluate environmental problems from an economic perspective. Many of these concepts will be utilized throughout the remainder of the semester. Feel free to work cooperatively but each person is required to turn in their own problem set that provides the solutions in their own words. The answer key will be passed out at the Recitation at 9:00 am on Friday, March 12. Consequently, late problem sets will not be accepted.

- 1) Kolstad, Chapter 7, #1, #3, #4, #6
- 2) Kolstad, Chapter 8, #2
- 3) Kolstad, Chapter 9, #2, #3, #6, #7
- 4) Kolstad, Chapter 10, #2
- 5) Provide a synopsis of the U.S. experience with the SO₂ trading program (feel free to base your answers on the Schmalensee, et al and Stavins articles, as well as Sean's presentation). What do you think the most important lessons are from this "experiment"? Do you think that the SO₂ program has caused the Pareto efficient level of SO₂ concentrations? Why or why not? What did you learn about the benefits and costs of marketable permits from your experiences with the trading game in class?

[Note: It is possible that we will not cover Chapter 10 and the US experience with the SO₂ trading program before the problem set is due. If this turns out to be the case, problems 4) and 5) will be moved to the next problem set. In the meantime, you should assume that you are responsible for answering these questions.]