

Adv. PSE I: Tutorial Questions for Chapter 5

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6 Ecological Competition: The Basic Model Set-up

Chapter 5.1 introduced the basic set-up of the model used throughout the discussion of ecological dumping. Use the “model on one page” to answer the following questions.

- a) Identify equations that represent assumptions! State each assumption as an English sentence!
- b) Consider the tax imposed by the government:
 - i) By which name do economists refer to this kind of tax?
 - ii) Generally speaking, what is the goal of this kind of tax?
 - iii) What is the specific goal of the tax in the case at hand?
- c) Consider the main result of the model:
 - i) Which equation represents the main result?
 - ii) Does the result imply efficiency?
 - iii) How can you tell formally?

7 Ecological Competition: Extending the Model

You discussed four variations of the model in class: international spillovers, international spillovers with side payments, permanent emission certificates, and environmental standards. Answer the following questions for each variation!

- a) Consider the variation of the assumptions:
 - i) Intuitively, which additional feature are we trying to include in the model?
 - ii) Which equations are changed?
- b) Consider the new result:
 - i) Is the result obtained for the marginal productivity of emissions larger than, smaller than or equal to the result obtained using the basic set-up?
 - ii) What does this result imply regarding the efficiency of the environmental policy?
 - iii) Explain the economic intuition of the result!

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