

End-of-chapter Questions

Chapter 7: Externalities - Policy Considerations

1.
 - a. What is the Coase Theorem?
 - b. In the one-factory, one-person example in the chapter, why does it not matter who is assigned the property rights to clean air in achieving an efficient solution to the pollution externality? Why do both the factory owners and the victim have an incentive to correct for the externality under either assignment?
 - c. Might it matter for equity how the property rights are assigned?
2. Compare and contrast the relative advantages and disadvantages of using taxes or marketable permits to correct for externalities. Which do you think is better for controlling the SO₂ emissions of the public utilities in the U.S.? What advantage does each of these policies have over giving per-unit subsidies to firms to reduce their pollution?
3. Why might governments have to adjust a pollution tax a few times to find the right level for the tax rate?
4. By paying a congestion toll, drivers on city highways get the benefit of less congestion. Why might these benefits not be enough to justify the toll from the drivers' point of view? Would your answer change if the Distribution Branch were optimally redistributing income to satisfy the interpersonal equity condition for a social welfare maximum (equalizing the social marginal utilities of income of all people)?
5. Is subsidizing the victims of pollution for the harm caused them equivalent to taxing pollution at its source? (Use as an example subsidizing half of people's costs for a moving van if they relocate to a part of a city that experiences less air pollution.)
6. Why do economists favor pricing policies for combating pollution over even-handed command-and-control (CAC) quantity approaches such as requiring all firms to reduce their pollution by the same amount or requiring all firms to use the same pollution-reducing technology (for example, scrubbers on their smokestacks)?
7. Why is waste treatment of pollution not likely, by itself, to be the optimal approach to reducing pollution? Does waste treatment have any role to play in the efficient reduction of pollution?