

ECON 315 Assignment 7 (Topic 8)

Directions:

- The due date is on the schedule page. (Late assignments not accepted.)
- You may complete the assignment in a group of up to three students.
- Submit the assignment in D2L.
- Submit only one assignment per group.
- List the names of all members at the beginning of the assignment.

Questions:

1. The Coase Theorem states that private bargaining can overcome negative externalities and achieve efficient outcomes under certain conditions. What are the key assumptions required for the Coase Theorem to hold? Why are these assumptions often not met in environmental problems, justifying a role for government intervention?

2. The chapter discusses how an emissions tax and a cap-and-trade system are theoretically equivalent ways to achieve the efficient level of pollution abatement. In what ways are the two policies similar? In what key way do they differ? When might the choice between price and quantity instruments matter for the efficiency of the outcome?

3. The chapter presents three ways of thinking about how market-based environmental policies can help overcome market failures: getting the prices right, filling in missing demand for public goods, and establishing property rights. Pick two of these frameworks and explain how an emissions tax and a cap-and-trade system can be understood in each of those terms. What insights does each perspective provide?