

### **Problem Set #3**

*Due Friday, April 9 to TA at 9 am.*

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, April 9. Consequently, late problem sets will not be accepted.

- 1) Provide a synopsis of the U.S. experience with the SO<sub>2</sub> 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 the SO<sub>2</sub> program has caused the Pareto efficient level of SO<sub>2</sub> 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?
- 2) Kolstad, Chapter 10, #3
- 3) Kolstad, Chapter 11, #6, #7
- 4) Kolstad, Chapter 12, #4
- 5) Comment on the following statement, "It is unnecessary and counterproductive for multilateral institutions to encourage and/or force developing countries to enact policies aimed at protecting the environment." You should base your answer on the theoretical and empirical evidence on the Kuznets curve. You may also include your own views on this topic, but you should clearly draw a distinction between your opinion and what can be said scientifically.
- 6) Comment on the following statement, "Interregional competition will naturally lead to low levels of environmental quality." Again you should base your answer on any available theoretical and empirical evidence.
- 7) Assess the validity of the Porter hypothesis, which will be presented in class on Wednesday and is expressed in writing in:

Porter, Michael E. and Class Van der Linde. Fall 1995. "Toward a New Conception of the Environment-Competitiveness Relationship," *Journal of Economic Perspectives*, 9 (4): 97-118.