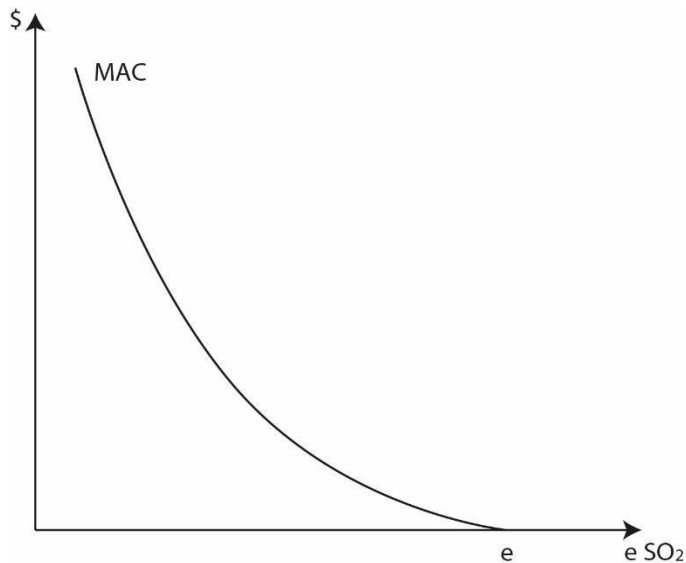


DIS Environmental Economics — In-class Team Exercise on Uniform Standards

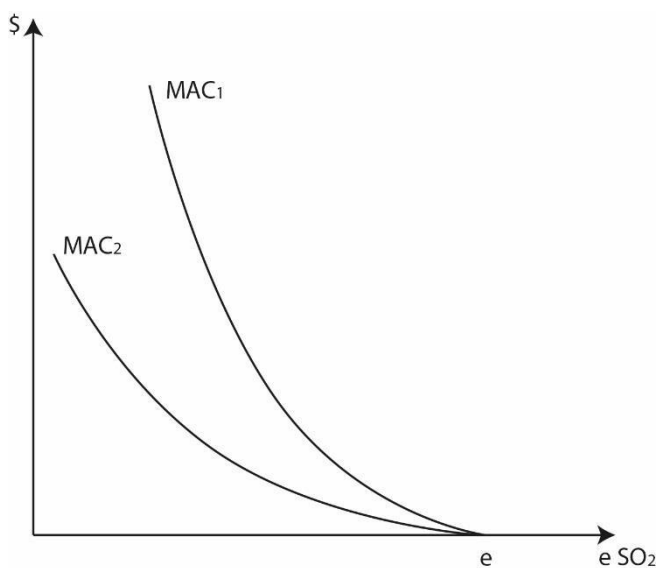
Emission Standards



Mark the following on this graph:

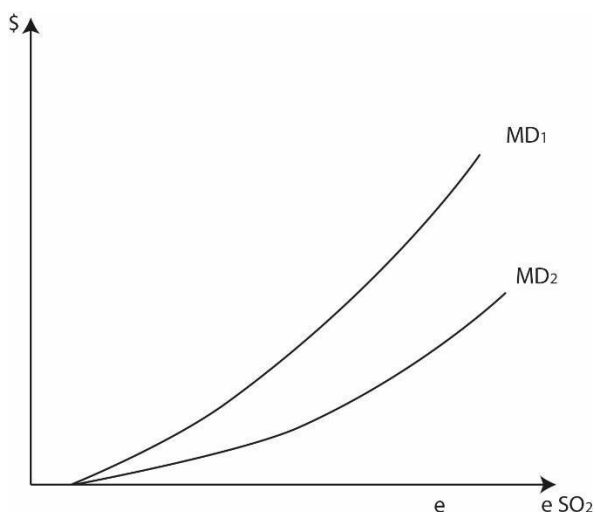
- business as usual level of emissions
- an arbitrary standard
- the cost of compliance
- the amount of emissions abated
- the amount of emissions emitted
- the marginal cost of abating one more unit at the standard level.

The problem of uniform standards



This graph represents two different firms with different MAC curves.

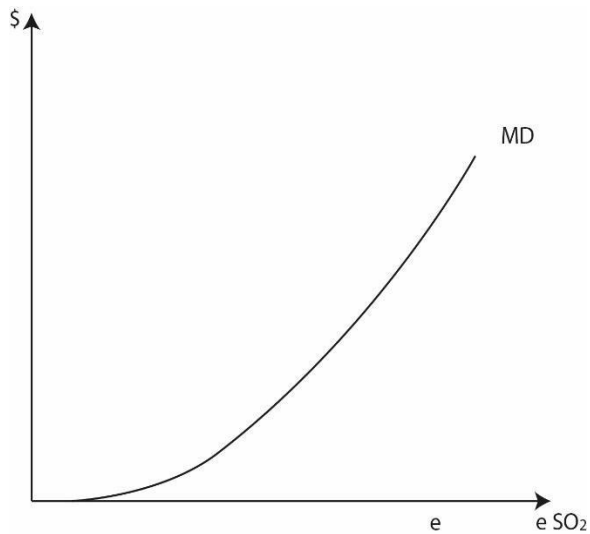
- Draw an arbitrary uniform standard that intersects both curves.
- How is it evident from the graph that this standard is inefficient? (Explain and illustrate on the graph.)



This graph represents the MD curves of two different areas (urban and rural)

- Draw an arbitrary MAC curve
- Why is it problematic to impose uniform standards where there are different MD cost curves in play? (Explain and illustrate on the graph)
- How could this problem be solved?

Setting standards based only on the MD curve



Illustrate the two main ways of setting standards based on the MD cost curve:

- Set the standard at “zero-risk” level (e_i);
- Set the standard at reasonably small level of damages (e_s), i.e., before the curve bends upwards.
- Draw an arbitrary MAC curve, and mark for each standard:
 - the business as usual level of emissions
 - the cost of compliance
 - the amount of emissions abated
 - the amount of emissions emitted
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