

Table of Contents

LIST OF FIGURES AND TABLES.....	5
PREFACE: WHY THIS BOOK?	7
DEDICATION	11
CHAPTER 1: ISSUES, INSTRUMENTS, INSTITUTIONS AND IDEAS	12
1.1 ENVIRONMENTAL CONCERNS: A HISTORICAL SURVEY	12
<i>The Brundtland Report</i>	16
<i>Warnings in the 1970s</i>	17
<i>The Limits of the Earth, ca. 1953</i>	19
<i>The Imperative Duty of 1912</i>	20
<i>Our Numbers are Burdensome to the World</i>	23
1.2 ENVIRONMENTAL ISSUES	26
1.2.1 <i>Conventional Air Pollution</i>	26
1.2.2 <i>Global Environmental Problems: Ozone Depletion</i>	29
1.2.3 <i>Global Environmental Problems: Global Warming</i>	33
1.2.4 <i>Air Pollution and Economic Growth over Time</i>	43
1.2.5 <i>Water Pollution</i>	50
1.3 POLICY INSTRUMENTS: A BRIEF INTRODUCTION.....	53
1.3.1 <i>Standards</i>	53
1.3.2 <i>Emission Taxes</i>	53
1.3.3 <i>Emission Permits</i>	54
1.3.4 <i>Liability Law</i>	54
1.4 INSTITUTIONS AND RULE-MAKERS.....	55
1.4.1 <i>Federal Governments in the United States and Canada</i>	55
1.4.2 <i>State and Provincial Governments</i>	56
1.4.3 <i>Municipalities</i>	56
1.4.4 <i>Courts</i>	56
1.5 GROWTH AND THE ENVIRONMENT: THE TRADEOFF OVER TIME.....	57
1.6 DOES GROWTH THEORY PREDICT THE EKC?*	61
REVIEW QUESTIONS.....	65
REFERENCES AND EXTRA READING	68
DATA SOURCE WEBSITES	72
CHAPTER 2: VALUATION OF THE ENVIRONMENT	74
2.1 EXTERNALITIES	74
2.2. SOME RESULTS FROM MICROECONOMICS AND WELFARE ECONOMICS	78
2.3 POLLUTION DAMAGES IN UTILITY TERMS	86
2.4 NON-MARKET VALUATION OF ENVIRONMENTAL CHANGE	91
2.5 AGGREGATING ENVIRONMENTAL VALUES	96
2.6 DISCOUNTING ENVIRONMENTAL DAMAGES OVER TIME	97
2.6.1 <i>Annuities</i>	98
2.6.2 <i>Discount Rates*</i>	101
2.7 ADDING UP BENEFITS ACROSS PEOPLE WITH UNEQUAL INCOMES.....	105
2.8 UNCERTAINTY, RISK AND RISK-AVERSION*.....	110
2.9 NON-LINEARITY AND NON-COMMUTATIVITY.....	114
REVIEW QUESTIONS.....	116

REFERENCES AND EXTRA READING	119
CHAPTER 3: THE VALUE OF EMISSIONS AND THE COSTS OF ABATEMENT	122
3.1 THE OPTIMAL OUTPUT-ABATEMENT CHOICE	122
3.2 THE MARGINAL ABATEMENT COST FUNCTION	131
REVIEW QUESTIONS.....	136
CHAPTER 4: OPTIMAL EMISSIONS: THE PARTIAL EQUILIBRIUM CASE	140
4.1 THE OPTIMAL EMISSIONS LEVEL	140
4.2 STATIC SHORT-RUN EFFICIENCY.....	144
4.3 STATIC LONG-RUN EFFICIENCY*	154
4.4 THE BALANCED BUDGET REQUIREMENT	159
4.5 NON-POINT SOURCE POLLUTION*.....	160
4.6 DYNAMIC EFFICIENCY AND TECHNOLOGY ADOPTION DECISIONS.....	169
4.7 A NOTE ABOUT TERMINOLOGY: 'POLLUTION' TAXES VERSUS 'PIGOVIAN' TAXES.....	172
REVIEW QUESTIONS.....	174
REFERENCES AND EXTRA READING.....	184
CHAPTER 5: INFORMATION, UNCERTAINTY AND INSTRUMENT CHOICE.....	186
5.1 INCENTIVES TO REPORT TRUTHFULLY	186
5.2 PRICES VERSUS QUANTITIES	191
5.2.1 <i>Equivalence under certainty</i>	191
5.2.2 <i>Policy Choice when Damages are Uncertain</i>	193
5.2.3 <i>Policy Choice when the Marginal Abatement Cost is Uncertain</i>	195
5.2.4 <i>Instrument Choice under Uncertainty</i>	196
REVIEW QUESTIONS.....	199
REFERENCES AND EXTRA READING	201
CHAPTER 6: POLLUTION STANDARDS, MONITORING AND ENFORCEMENT	203
6.1. STANDARDS VS. STANDARDS	203
6.1.1 <i>Level Standard versus Emissions Intensity Rule</i>	207
6.2. CONCENTRATION STANDARDS WITH MANY FIRMS*	211
6.3 MONITORING AND ENFORCEMENT	214
6.3.1 <i>Standard Enforcement Model</i>	216
6.3.2 <i>Regulation with Random Pollution and Uncertain Inspections</i>	219
REVIEW QUESTIONS.....	228
REFERENCES AND EXTRA READING	231
CHAPTER 7: TRADABLE PERMITS AND QUOTAS.....	233
7.1. THE COMPETITIVE CASE	233
7.1.1 <i>The U.S. Sulfur Market</i>	235
7.2 MARKET POWER AND TRADABLE PERMITS*	242
7.3 AUCTION VERSUS QUOTAS.....	246
REVIEW QUESTIONS.....	250
REFERENCES AND EXTRA READING	254
CHAPTER 8: EMISSION TAXES AND THE GENERAL EQUILIBRIUM MODEL OF EMISSION PRICING.....	257
8.1 REVIEW OF BASIC CONCEPTS.....	257
8.2 DEADWEIGHT LOSS	260
8.3 REVENUE RECYCLING AND TAX INTERACTION EFFECTS	261
8.4 THE SANDMO MODEL OF OPTIMAL TAXATION IN THE PRESENCE OF EXTERNALITIES*	271
8.4.1 <i>First-Best Allocation</i>	272

8.4.2 <i>Decentralized Competitive Outcome</i>	274
8.4.3 <i>Optimal Second-Best Tax System</i>	278
8.4.4 <i>Pollution Taxes and Deadweight Loss</i>	285
8.5 SUBSIDIES	287
REVIEW QUESTIONS.....	290
REFERENCES AND EXTRA READING.....	292
CHAPTER 9: BARGAINING AND TORT LAW AS SOLUTIONS TO EXTERNALITIES	293
9.1. INTRODUCTION	293
9.2 MULTIPLE VICTIMS AND JOINT TORTFEASORS	299
9.2.1 <i>Multiple Victims</i>	299
9.2.2 <i>Joint Tortfeasors</i>	299
9.3 CONTESTS OVER DAMAGES*.....	310
9.4 VICTIM OVEREXPOSURE	316
REVIEW QUESTIONS.....	319
REFERENCES AND EXTRA READING.....	322
CHAPTER 10: INTERNATIONAL TRADE AND POLLUTION	325
10.1 POLLUTION HAVENS AND ENVIRONMENTAL DUMPING	325
10.1.1 <i>Trade Flows and Pollution</i>	326
10.1.2 <i>Foreign Direct Investment and Pollution</i>	330
10.2 TRADE LIBERALIZATION AND THE ENVIRONMENT	332
10.2.1 <i>Model Set-up*</i>	333
10.2.2 <i>Welfare Analysis*</i>	337
10.2.3 <i>Environmental Effects of Trade Liberalization: Pollution Haven Hypothesis versus Factor Endowment Hypothesis</i>	340
PRACTICE QUESTIONS.....	343
REFERENCES AND EXTRA READING.....	344
CHAPTER 11: SUSTAINABILITY AND OPTIMAL GROWTH	347
11.1 INTRODUCTION	347
11.2 NET NATIONAL PRODUCT	350
11.3. MEASURING SUSTAINABILITY	357
11.3.1 <i>Green Net National Product and Net Savings</i>	358
11.4 HARTWICK'S RULE ON SUSTAINABLE CONSUMPTION PATHS*	362
PRACTICE QUESTIONS.....	367
REFERENCES AND EXTRA READING.....	368
CHAPTER 12: POLICY DEBATES, PRACTICE EXAM AND SUPPLEMENTARY QUESTIONS.....	371
12.1 POLICY DEBATES	371
12.2 PRACTICE EXAM QUESTIONS	374
12.3 FURTHER STUDY QUESTIONS	384