

Econ 101 Class 18 Questions

1. The following table gives the value of a mill and the value of a fishery as a function of the mill's pollution decision

Pollution Decision	Value of Mill	Value of Fishery
High Discharge	\$5000	\$2000
Low Discharge	\$1000	\$3000

If the Fishery has the right to block the mill from a high rate of discharge of pollution then...

- A. The Fishery will prefer to exercise its right and keep pollution low.
 - B. The Fishery will achieve the social optimum by keeping pollution low.
 - C. The Mill will pay the Fishery over \$4000 for the right to pollute. Fishery will go out of business because of pollution.
 - D. The Mill will achieve the social optimum by buying the right to pollute from the Fishery. **
2. Suppose three companies in the Ohio Valley each produce 1000 tons of SO₂ per year. The EPA has decided to reduce emissions by 1200 tons per year. The following table gives the marginal cost per ton of reducing emissions.

SO ₂ Reduction	Marginal Cost per Ton of SO ₂ Reduction		
	Firm A	Firm B	Firm C
0-200	\$100	\$100	\$50
200-400	\$100	\$150	\$100
400-600	\$100	\$200	\$150
600-800	\$150	\$250	\$300
800-1000	\$150	\$300	\$500

Under the efficient plan, how much pollution reduction should each firm undertake?

- A. A(600), B(200), C(400) **
 - B. A(400), B(400), C(400)
 - C. A(800), B(200), C(200)
 - D. A(600), B(200), C(200)
3. According to Parry and Pizer, an advantage of a carbon tax system is that ____.
- A. A tax is better at hitting an emissions reduction target.
 - B. It is easier to compensate hard hit industries with a tax system.
 - C. It is politically easier to impose a carbon tax than a cap-and-trade system.
 - D. A tax fixes the price of emitting CO₂.
4. According to Kanter, the trouble with markets for carbon in Europe has been ____.
- A. The price of a permit to emit carbon has varied a lot.
 - B. Initially, too many permits were issued and the price of a permit fell by a lot.
 - C. There is ferocious lobbying by firms and nations seeking exceptions to the permit system.
 - D. All of the above.