

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

1A) (25 points) Draw the diagram for a common resource like fish, the total costs/revenue as a function of effort. Illustrate the optimal point. Why is that optimal? Why won't society produce there?

1B) (10 points) What would occur if the resource had property rights? How would that affect the situation?

2A) (15 points) Coase said that the allocation of rights does not affect the final outcome. For example, it does not matter if the cars have the right to pollute or if people have the right to breathe fresh air, you will get the same amount of pollution. The only difference is that you have redistributed wealth. Explain the logic.

2B) (20 points) When might Coase be wrong? Explain why he might be wrong then.

3) (10 points) The book talks about a measure of sustainability called ANNP. Why is it important?

4) (20 points) Draw the MEC/MAC diagram. What is the optimal level of pollution? Is it better to regulate the pollution or to tax it? Why?