

All parts of the assignment will be turned in at the end of the lab. Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (25 points) Draw the marginal abatement costs/marginal external costs diagram the way I drew it in class. Explain why it looks as drawn. Find a point to the left of where the lines cross, explain how increasing the pollution level will make the country better off.

2) (20 points) What is meant by *adjusted net savings gap*? What are the two differences between it and *net savings*? Explain why those two differences are important for the country to develop.

3) (20 points) What is the Coase Theorem? Explain why it might hold.

4) (15 points each) Answer each part in a separate paragraph. For each of the following, do you think this method is easy to get the optimal level of pollution. Explain your logic.

A) Regulating the amount of pollution a company produces.

B) Taxing pollution.

C) Marketable permits, a.k.a, cap and trade.