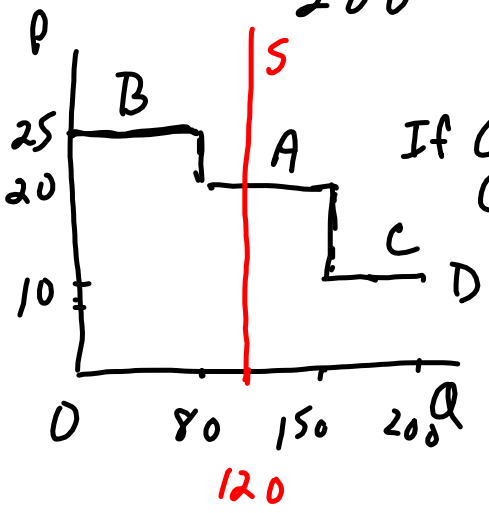
Q.10 - permit market - SO_2 NO_x
↳ need a permit (quantity)
to emit → buy a permit
or reduce emissions
- idea → emission target at
lowest possible

Thomas Crocker - Wyo.
John Dales - Toronto.] 1968

Firms	Initial	Cost	Permits	Command & Control
A	70	20	40	600
B	80	25	40	1000
C	50	10	40	100
	200		120	1700

Cost



Price = #20

If Cost > #20 Buy
Cost < #20 Sell

B buy from C @ #20 Transfer

B buys 40 → cost 800

C sells 40 → " 500

A use 40 pay #20·30 600

1100

other examples

- beneficial → subsidy - reduce cost
  - economic impact of program or facility

Universities - community

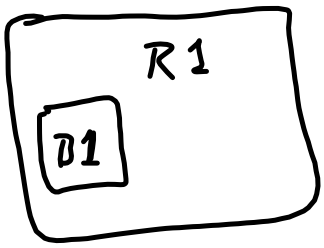
Stadiums

Arts / Cultural

Zoning Regulations - land use type

ex B1 - retail
- restaurant
- bar

- negative externalities
  - spatial



Try Q3 & Q1 p213

Information Asymmetries Chapter 22 parts 1+3

- moral hazard ∝
  - ↳ behavior of buyer affects performance of product + seller can't observe behavior
  - lowers cost to buyer
- adverse selection ∝ - type
  - terms of sale attract (costly) wrong buyers
  - screen buyers - information ≈ past behavior, health

Adverse selection.

→ range of quality (types) = High / Low

Price → expected value (EV)

$EV = Prob_H \cdot \#H + (1 - Prob_H) \cdot \#L$

Akerlof - "Lemons" Problem

$EV = Price = Prob_H \cdot \#H + (1 - Prob_H) \cdot \#L$

owner knows good or bad

Sell → EV or Price used vs EV of new

own a good car $P_L^u < P_L^N$ - experience "

bad car $P_L^u > P_L^N$ -

Buyer of used car - offer lower price

expect $P_L^u > P_L^N$

$P_L = 0.5$ initial

① $V_L = \$100$

$V_G = \$200$

$EU = 0.5 \cdot 200 + 0.5 \cdot 100$

$= \$150$

But if own good car $\$150 < V_G$ so $P <$ WTA

② $P_L = 0.55$ P ↓ from $\$150$

$P_G = 0.45$

③ $P_L = 0.6$ - Adverse selection

$P_G = 0.4$ leads to market collapse