

The economics of the environment: markets vs. regulations

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The Big Picture

- ▶ Environmental (public) goods have subjective costs and benefits.
- ▶ Regulation can narrow choices based on inappropriate or mismeasured values.
- ▶ Markets are more flexible.

Background reading: *The End of Abundance: economic solutions to water [quality/quantity] scarcity*

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Markets for quality

1. Cap and trade requires that either emissions or quality be capped/targeted.
2. These measurement problems also exist with regulation.
3. Trade then allows “suitable parties” (point sources?) to find the cheapest way to hit the solution.

Outcomes instead of outputs. No need to specify or monitor technology or techniques.

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Markets for quantity

1. Existing rights are recognized.
2. Environmental flows are quantified.
3. Reductions are allocated (seniority or across the board).
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Thank you!



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