Class #5: Announcements

- Get your Team folders
- Today’s Goal: Help you acquire an intuitive understanding of what is meant by efficient and inefficient.

A review of efficiency

Market goods

Consumer’s MWTP
1/26/2016

Bottom Line: Market prices will lead to a price and quantity that maximizes net benefits to suppliers and demanders.

A review of efficiency for environmental services

Q - An environmental service
The socially optimal level
The socially optimal level
Inefficiently low, but still passes as B-C Test

Inefficiently high, but still passes as B-C Test

100% can be efficient
0% can be efficient

Using everyday language, complete the sentence, “It is economically undesirable to have less than the optimal level of an environmental service because …”

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Aunt Sue Exercises

• Your Aunt Sue is a diehard environmentalist. She's convinced that every environmental regulation needs to be stronger. In fact, she thinks that pollution should be illegal. Write a short e-mail message to your Aunt explaining why some level of pollution makes sense in terms of economic efficiency.

Aunt Sue Grading Rubric

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is it clear that social net benefits are considered?</td>
<td>3</td>
</tr>
<tr>
<td>Are marginal concepts used correctly to explain that, for at least some pollutants, the marginal benefit at 100% elimination is less than the marginal cost?</td>
<td>5</td>
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<td>Is the answer well written in every-day language with correct grammar and word choice?</td>
<td>2</td>
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• Pick the better answer between A & B
  – Circle positive aspects. Put an X by negative aspects

• Pick the better answer between B & C
  – Circle positive aspects. Put an X by negative aspects
Aunt Sue

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- Pick the better answer between A & B
  – Circle positive aspects. Put an X by negative aspects
- Pick the better answer between B & C
- Pick the best answer.

Is water pollution in Bangladesh at the efficient level?

- What would be two benefits of a marginal decrease in water pollution in Bangladesh?
- What would be a cost associated with decreasing water pollution in Bangladesh?
- Do you believe the benefits outweigh the costs?

Apply the definition of efficiency to water quality in Bangladesh

- Write a one or two sentence explanation of why it would be economically efficient to improve water quality in Savar Bangladesh.