Class #4: Announcements

- Get your Team folders
- Average iRAT & tRAT scores:

- Today’s Goal: Help you acquire an intuitive understanding of what is meant by efficient and inefficient.
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
The socially optimal level

MWTP by society

MC to society

Q - An environmental service

The socially optimal level

MWTP

MC

Total Benefits

Q - An environmental service

The socially optimal level

MWTP

MC

Total Net Benefits

Q - An environmental service

Q - An environmental service
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>
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</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>
</tr>
<tr>
<td>Is the answer well written in every-day language with correct grammar and word choice?</td>
<td>2</td>
</tr>
</tbody>
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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

Now write your own (personal) msg to Uncle Bob (5 minutes)

• Your Uncle Bob is an extreme free market advocate. He’s convinced that every environmental regulation is bad. In fact, he thinks that there should be no attempt by the government to reduce the amount of pollution.

Write a short e-mail message to your Uncle explaining why it is probably socially efficient for there to be some efforts to reduce pollution.

Come up with a team best answer

• Submit for grading.
• Should be less than 50 words.

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