**Research question:** What is the welfare-maximizing payment rate for AES/PES (between min: mean opportunity costs/conservation costs, max: societal WTP for environmental good) and what are the determinants of the “balance”?

Basic model setup:

* n farmers with one patch each
* conservation or no conservation
* y: societal WTP for unit of environmental good generated by conservation of one patch
* xi: individually specific conservation costs, unknown to planner (normal distribution for starters)
* : mean conservation costs, known to planner
* farmers decide based on payment vs conservation costs

Complications:

* y also distributed unevenly
* neighbourhood effects à la Drechsler (2017) 🡪 non-binary relationship conservation/environmental improvement
* result-based payments
* environmental good requires minimum provision on landscape level

Assumption:

* auctions impractical (transaction costs, willingness to participate, bureaucratic load)