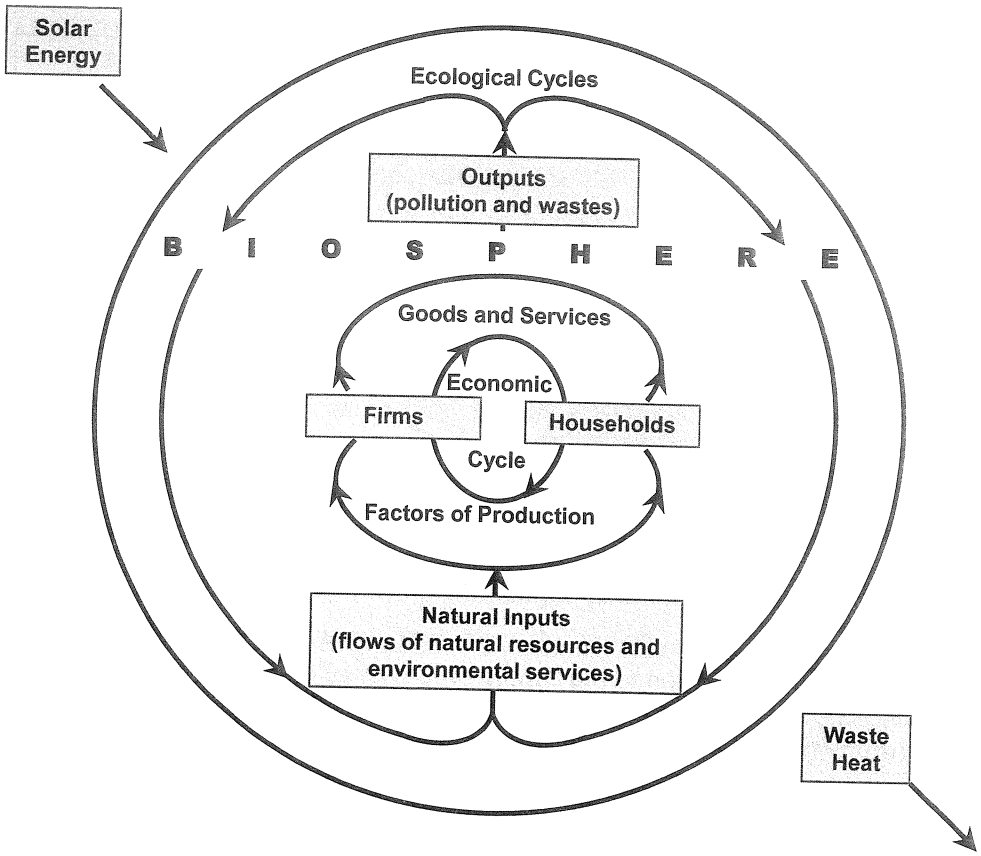
Hanks & Roach (2013) "ENVIRONMENTAL & NATURAL RESOURCE ECONOMICS: A CONTEMPORARY APPROACH" 3E; NY: ME SHARPE.

Figure 1.2 **A Broader Circular Flow Model**



These relationships between human activity and the environment define the poi of contact between the inner circle of economic flows and the outer circle of ecolo cal flows. Natural resource and environmental economics analyzes the relationsh between the two circular flows: the economic system and the ecosystem.

The Economic Valuation Approach

economic valuation
the valuation of a resource in monetary terms.

The traditional economic approach to analysis of natural resource and wa flows uses the same kind of **economic valuation** applied to factors of productic goods, and services. This analysis seeks to put a price on each natural resour and environmental input to the economy, including estimating a price for inpu not usually included in market transactions, such as clean air and water. Econom techniques can be used to assess the money value of damages caused by pollutic and waste disposal.

By placing a money value on natural resources and environmental functior we can include them in the inner, or economic, circular flow. This is the goal much standard resource and environmental analysis. As we will see, a variety methods can serve this end, including redefining or reassigning property right creating new institutions such as markets for pollution permits, or implicit valu tion through surveys and other techniques. If we can be satisfied that these pricir mechanisms accurately reflect the "true value" of resources and of environment