

*Supervision 3 (end of week 6 or later)*

*Externalities*

1. Discuss, in theory and in practice, the relative merits of (a) carbon taxes and (b) traded emission permits as methods of reducing greenhouse gas emissions.

*Reading*

Varian, Chap. 31.

N. Gregory Mankiw, "Smart Taxes: An Open Invitation to Join the Pigou Club", *Eastern Economic Journal*, 2009, vol. 35, pp. 14-23

Lawrence H. Goulder, "Markets for Pollution Allowances: What are the (New) Lessons?", *Journal of Economic Perspectives*, Winter 2013, pp 87-102.

Richard G. Newell, William A. Pizer and Daniel Raimi, "Carbon Markets 15 Years after Kyoto: Lessons Learned, New Challenges", *Journal of Economic Perspectives*, Winter 2013, pp. 123-146.

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2. "Externalities are only problematic when property rights are badly defined. The solution is simple: define and allocate property rights transparently." Is this statement true? Justify your answer.

*Reading*

Varian, chap. 31.

Joseph Farrell, "Information and the Coase Theorem", *Journal of Economic Perspectives*, Fall 1987, pp. 113-129.

Richard A. Posner, "Nobel Laureate: Ronald Coase and Methodology", *Journal of Economic Perspectives*, Autumn 1993, pp. 195-210 (esp. first 10 pages).

Deirdre McCloskey, "The So-Called Coase Theorem", course website.