

ESM 204 Assignment 3

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1. Linear Probability Model

Create a linear probability model that predicts a respondent's probability of voting "yes" on the ballot based on their age, income, NEP score, the program's risk reduction, and cost of the program to that respondent.

Regression Model:

$$\text{Probability}(\text{Voting Yes}) = 0.1197 + 0.0204(\text{Age to 30}) - 0.0201(\text{Age to 40}) + 0.01(\text{Age to 50}) - 0.0162(\text{Age to 60}) + 0.0088(\text{Income One Percent}) + 0.0027(\text{Income Poor}) + 0.0075(\text{Income Rich}) + 0.0468(\text{Income Very Rich}) + 0.0159(\text{NEP}) - 0.0011(\text{Bid}) + 7 \times 10^{-4}(\text{Risk Reduction})$$

Coefficient Interpretation:

Age: Reference Level Over 65

- to 30: All else being equal, a person in the age bracket of to 30 would be expected to have a probability of voting yes on a vessel speed reduction program that is, on average, 0.0204 higher than a person in the age bracket over 65.
- to 40: All else being equal, a person in the age bracket of to 40 would be expected to have a probability of voting yes on a vessel speed reduction program that is, on average, 0.0201 lower than a person in the age bracket over 65.
- to 50: All else being equal, a person in the age bracket of to 50 would be expected to have a probability of voting yes on a vessel speed reduction program that is, on average, 0.01 higher than a person in the age bracket over 65.
- to 60: All else being equal, a person in the age bracket of to 60 would be expected to have a probability of voting yes on a vessel speed reduction program that is, on average, 0.0162 lower than a person in the age bracket over 65.

Income: Reference Level Middle

- One Percent: All else being equal, a person with an income level of one percent would be expected to have a probability of voting yes on a vessel speed reduction program that is, on average, 0.0088 higher than a person with a medium income level.
- Poor: All else being equal, a person with an income level of one percent would be expected to have a probability of voting yes on a vessel speed reduction program that is, on average, 0.0027 higher than a person with a medium income level.
- Rich: All else being equal, a person with an income level of one percent would be expected to have a probability of voting yes on a vessel speed reduction program that is, on average, 0.0075 higher than a person with a medium income level.
- Very Rich: All else being equal, a person with an income level of one percent would be expected to have a probability of voting yes on a vessel speed reduction program that is, on average, 0.0468 higher than a person with a medium income level.

NEP: For every 1 unit increase in environmental concern, we would expect the probability of voting yes on a vessel speed reduction program to increase by 0.0159, if all other variables are equal.

Bid: For every 1 dollar increase in annual household payment, we expect the probability of voting yes on a vessel speed reduction program to decrease by 0.0011, if all other variables are equal.

Risk: For every 1 unit increase in risk reduction, we would expect the probability of voting yes on a vessel speed reduction program to increase by 7×10^{-4} , if all other variables are equal.

2. Value of Prevented Whale Deaths

Reducing the risk of whale strikes by 20% saves five whales every year. Based on this, the vessel speed reduction by 4% saves a single whale every year. To find the value of each individual whale saved find the willingness to pay for vessel speed reduction programs of 0% and compare to the willingness to pay for vessel speed reduction of 4%.

Risk Reduction 0%

Assume the probability of voting yes is the average of the votes ($p = 0.714$), assume an age to 30, income rich, and the average NEP (38.366), solve for the willingness to pay for the program using:

$$0.714 = 0.1197 + 0.0204(\text{Age to 30}) + 0.0075(\text{Income Rich}) + 0.0159(\text{NEP}) - 0.0011(\text{Bid}) + 7 \times 10^{-4}(0)$$

$$\text{Willingness to Pay} = 39.5$$

Risk Reduction 4%

Again, assume the probability of voting yes is the average of the votes ($p = 0.714$), assume an age to 30, income rich, and the average NEP (38.366), solve for the willingness to pay for the program using:

$$0.714 = 0.1197 + 0.0204(\text{Age to 30}) + 0.0075(\text{Income Rich}) + 0.0159(\text{NEP}) - 0.0011(\text{Bid}) + 7 \times 10^{-4}(4)$$

$$\text{Willingness to Pay} = 42.28$$

The value of a single whale is the difference between the willingness to pay for a vessel speed reduction program at 4% and at 0%.

$$\text{Individual Whale Value} = 2.78$$

3. Estimated Willingness to Pay for a Vessel Speed Reduction Program

a. Choose three participants at random

Using a random number generator select three participants:

- 38 NEP:32 Income:Rich Age:to30
- 44 NEP:51 Income:Poor Age:to40
- 102 NEP:51 Income:Middle Age:to60

b. Predict willingness to pay for 60% VSR program

Assume the probability of voting yes the average of all the yes votes ($p = 0.714$), calculate the willingness to pay using the following equations:

Individual 38:

$$0.714 = 0.1197 + 0.0204(\text{Age to 30}) + 0.0075(\text{Income Rich}) + 0.0159(\text{NEP}) - 0.0011(\text{Bid}) + 7 \times 10^{-4}(60)$$

Individual 44:

$$0.714 = 0.1197 - 0.0201(\text{Age to 40}) + 0.0027(\text{Income Poor}) + 0.0159(\text{NEP}) - 0.0011(\text{Bid}) + 7 \times 10^{-4}(60)$$

Individual 122:

$$0.714 = 0.1197 - 0.0162(\text{Age to 60}) + 0.0159(\text{NEP}) - 0.0011(\text{Bid}) + 7 \times 10^{-4}(60)$$

Individual 38:

$$\text{Willingness to Pay} = 13.14$$

Individual 44:

$$\text{Willingness to Pay} = 263.84$$

Individual 122:

$$\text{Willingness to Pay} = 257.64$$

4. Santa Barbara Estimated Willingness to Pay for VSR Program

Again assume the probability of voting yes the average of voting yes ($p = 0.714$). Use the median income bracket (poor), the median age bracket (to 50), and average NEP (38.366) to calculate willingness to pay using:

$$0.714 = 0.1197 + 0.0027(\text{Income Poor}) + 0.01(\text{Age to 50}) + 0.0159(\text{NEP}) - 0.0011(\text{Bid}) + 7 \times 10^{-4}(60)$$

$$\text{Average Santa Barbara County Household Willingness to Pay} = 67.04$$

5. Total benefits to Santa Barbara residents (population = 150,000).

$$\text{Risk} = 60\%$$

$$\text{Cost} = 7 \text{ million}$$

Calculate Total Benefits using the following equation:

$$\text{Total Benefits} = 67.04 \text{ per household} * 150,000 \text{ households}$$

$$\text{Total Benefits} = 1.0055361 \times 10^7$$

6. Do Benefits Outweight Costs

Yes, based only on these benefits the benefits do outweigh the costs.

$$\text{Cost} = 7 \text{ million}$$

$$\text{Benefits} = 1.0055361 \times 10^7$$

$$\text{Surplus} = 1.0055361 \times 10^7 - 7000000 = 3.0553606 \times 10^6$$

7. Price of Carbon Credits

Assume that for any ship transiting the Santa Barbara Channel the speed reduction that results in a 60% risk reduction costs the shipper 1000 but will result in 20 fewer tons of carbon dioxide per transit.

Shipping companies will adopt the VSR for self interested reasons if the value of the carbon credits is equal to the cost.

$$20 * Z = 1000$$

$$Z = 50/\text{ton}$$

8. Whales Saved by Carbon Credits

Assume the value of the carbon credit is 50/ton and all ships reduce speed to achieve the 60% risk reduction.

Number of Whales Saved:

$$20\% \text{ Reduction} = 5 \text{ Whales saved}$$

$$\text{Whales Saved} = 5 * 3 = 15$$

The social value of the whale reduction program is the total benefit of that program minus the cost. Since the carbon credits would avoid the 7 million cost of the program, the social value is just the total benefit of the program.

$$\text{Social Value} = 1.0055361 \times 10^7$$