

Emissions Fees

- Impose fee of \$x/unit

- When are fees, standards best, worst?

Tradeable permits

- Consider 2 firms with different MCA schedules:

- Suppose standard = E^*

- At E^* , what would firm 1 pay to be able to emit one more unit?
- At E^* , what would firm 2 require to abate one more unit?
 - Is a deal feasible?
- Tradable permits make the Coasian bargains feasible. They make, say, air into a priced input, and they allow firms to choose how much of it to sully.
 - Cleaner firms will abate more.

Asymmetric Information

- Why do used cars sell at a discount?
- Suppose **high** and **low** quality cars, and buyers can distinguish

- In reality, sellers know more than buyers do
- Suppose buyers know the distribution of high and low quality cars, not whether one is

- “Medium-quality demand”

- Ultimately, “bad drives out the good,” and market cannot function
- Solutions?
 - Policy?
 - Strategy?

Examples

- Consider the market for summer vacation rentals
 - Why is it difficult for this market to work?
 - “Field Trip” www.durkincottages.com
 - How does this solve the problem?

- Buying online What’s the problem?
- How does eBay solve this problem?
 - Field trip www.ebay.com

- How does Amazon solve this problem?
 - Field trip www.amazon.com