

RR, 10/2/08

New Stern School Undergraduate Elective
(Preliminary Syllabus)

Business and the Environment

C30.0225

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Spring 2009

Tue and Thurs, 2 – 3:15 p.m.

Prerequisite: introductory microeconomics

Environmental problems typically arise from “market failures.” This seminar will examine several environmental issues at the local, national, and international levels, such as smog, acid rain, energy, fishing, and global climate change. Drawing on the theories of externalities, market failure, and mechanism design, we shall explore the causes of these problems, and some of the potential remedies, including government regulation, voluntary associations, treaties, and markets for emissions, as well as potential related business opportunities.

Textbook: T. Tietenberg, *Environmental Economics and Policy* (5th ed.). Addison-Wesley, Boston, 2007, (hereafter cited as TT).

Plus various articles, most of which are found in the following two collections:

Stavins, R. N., ed., *Economics of the Environment: Selected Readings* (4th ed.). W. W. Norton, New York, 2000 (hereafter cited as EE).

Oates, W. E., ed., *The RFF Reader in Environmental and Resource Policy* (2nd ed.). Resources For the Future, Washington, DC, 2006 (hereafter cited as RFF).

Copies of most of these articles can be downloaded from JSTOR. I shall make arrangements to make the others available. Other references will be added during the semester, especially in the area of potential business opportunities.

Outline and Reading Assignments (preliminary)

1. Introduction

TT, Ch. 1, 1-12.

TT, Ch. 13, 257-80.

Fullerton, D., and R. Stavins (1998), “How Economists See the Environment,” *Nature*, 395, 6701 (EE, Ch. 1).

Hardin, G. (1968), “The Tragedy of the Commons,” *Science*, 162, 1243-48 (EE, Ch. 2).

2. Air Pollution, I. Stationary Source Local Pollution

TT, Ch. 14, 281-305.

Henderson, J. V. (1996). "Effects of Air Quality Regulation," /Amer. Econ. Review/ 86 (4), 789-813.

3. Air Pollution, II. Transportation

TT, Ch.16, 334-68.

Austin, D., and T. Dinan (2005). "Cleaning the Air: The Costs and Consequences of Higher CAFE Standards and Increased Gasoline Taxes," *J. of Environmental Economics and Management*, 50 (3), 562-582.

Espey, M., and S. Nair (2005). "Automobile Fuel Economy: What Is It Worth?" *Contemporary Economic Policy*, 23 (3), 1-7.

4. Acid Rain

TT, Ch. 15, 306-313.

Joskow, P. L, and R. Schmalensee (1988), "The Political Economy of Market-Based Environmental Policy: The U.S. Acid Rain Program," *J. of Law and Economics*, 41, 37-83 (EE, Ch. 28)..

Schmalensee, R., *et al* (1998), "An Interim Evaluation of Sulfur Dioxide Emissions Trading," *J. of Economic Perspectives*, 12, 53-68 (EE, Ch. 21).

Stavins, R. N. (1998), "What Can We Learn from the Grand Policy Experiment? Lessons from SO₂ Allowance Trading," *J. of Economic Perspectives*, 12, 69-88 (EE, Ch. 22).

5. Valuing the Environment

TT, Chapters 2-3, 113-58.

Portney, Paul R. (1994), "The Contingent Valuation Debate: Why Economists Should Care," *J. of Economic Perspectives*, 8, 3-17.

Hanemann, W. Michael (1994), Valuing the Environment through Contingent Valuation," *J. of Economic Perspectives*, 8, 19-43.

6. Externalities and Market Failure

TT, Ch. 4, 59-84.

7. Energy

TT, Ch. 8, 135-161.

Vaitheeswaran, V. V., Ch. 7 (pp. 194-219), *Power to the People*, Farrar, Strauss, and Giroux, New York, 2003.

8. Introduction to Game Theory

Radner, R. (2001), "Notes on Noncooperative Game Theory," Econ. Dept., Stern School, NYU (unpublished).

9. Fishing

TT, Ch. 7, 122-134.

TT, Ch. 12, 234-56.

RFF, pp. 35-41, 61-62, 131-135.

White, L. J., "The Fishery as a Watery Commons: Lessons from the Experiences of Other Public Policy Areas for U.S. Fisheries Policy." Stern Econ. Dept., Nov. 2006

10. Climate Change

- TT, Ch. 15, 314-33.
- Nordhaus, W. D. (1993), "Reflections on the Economics of Climate Change," *J. of Economic Perspectives*, 7, 11-25 (EE, Ch. 22).
- Schelling, T. C. (1997), "The Cost of Combating Global Warming: Facing the Tradeoffs," *Foreign Affairs*, 76, 8-14 (EE, Ch. 23).
- Jacoby, H., et al (1998), "Kyoto's Unfinished Business," *Foreign Affairs*, 77, 54-66 (EE, Ch. 24).
- Nordhaus, W. D. (2007), "A Review of *The Stern Review of the Economics of Climate Change*, *J. of Economic Perspectives*, vol. XLV, no. 3, 686-702.
- Weitzman, M. L. (2007). "A Review of *The Stern Review of the Economics of Climate Change*, *J. of Economic Perspectives*, vol. XLV, no. 3, 703-24.
- Tol, R. S. J. (2006), "The Stern Review of the Economics of Climate Change," Economic and Social Research Institute, Hamburg, Oct. 30, 2006 (unpublished).
- Dutta, P. K., and R. Radner (2004), "Self-Enforcing Climate-Change Treaties," *Proc. National Academy of Sciences of the U.S.*, 101, 4746-4751.

Supplementary References

- Vaitheeswaran, Vijay V., *Power to the People*, New York: Farrar, Strauss, and Giroux, 2003.
- Smil, Vaclav, *Energy at the Crossroads*, Cambridge, MA: The MIT Press, 2003.

The following references contain case studies on environmentally efficient and socially responsible companies that are profiting from their integration of those principles with profitability.

- Paul Hawken, Amory Lovings, L. Hunter Lovins, *Natural Capitalism – Creating the next Industrial Revolution*. Back Bay Books, 2000.
- William McDonough and Michael Braungart, *Cradle to Cradle – Remaking the way we make things*. New York: North Point Press, 2002.
- James A. Fava, Cynthia L Figge, Konrad Saur, Steven B. Young, *Mapping the Journey – Case studies in strategy and action toward sustainable development*. Sheffield: Greenleaf Publishing, 1999.
- Gary Erickson with Lois Lorentzen, *Raising the Bar – Integrity and Passion in Life and Business*. San Fransisco: Jossey-Bass, 2004.
- Yvon Chouinard, *Let my people go surfing – the education of a reluctant businessman*, New York: Penguin Press, 2005.