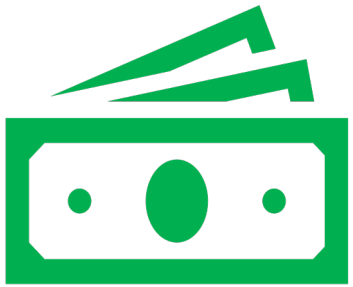
Environmental Policy: An Overview



- Science

- Economics

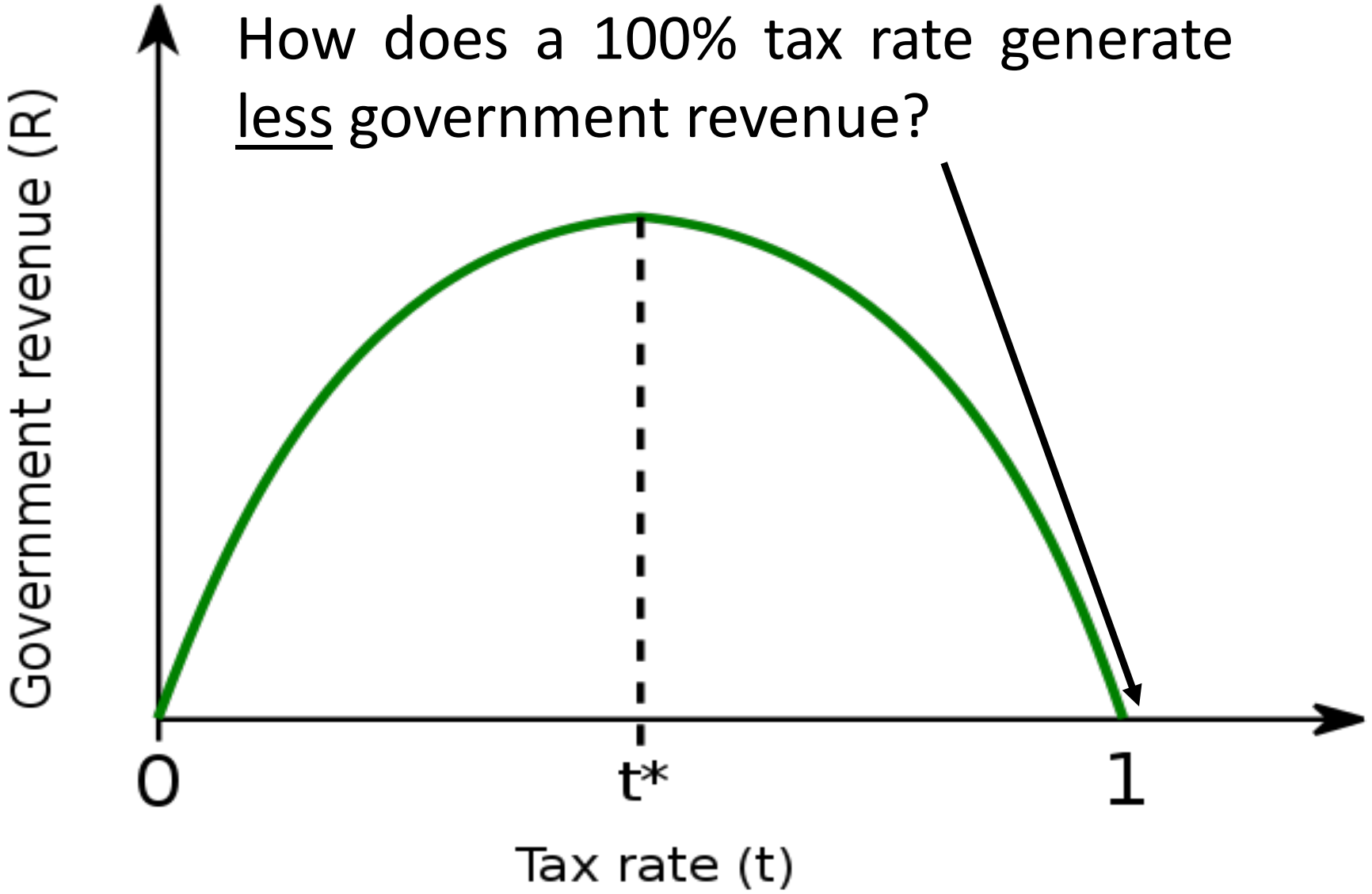
- Ethics

Economic incentives:

Cost-benefit analysis of environmental policy

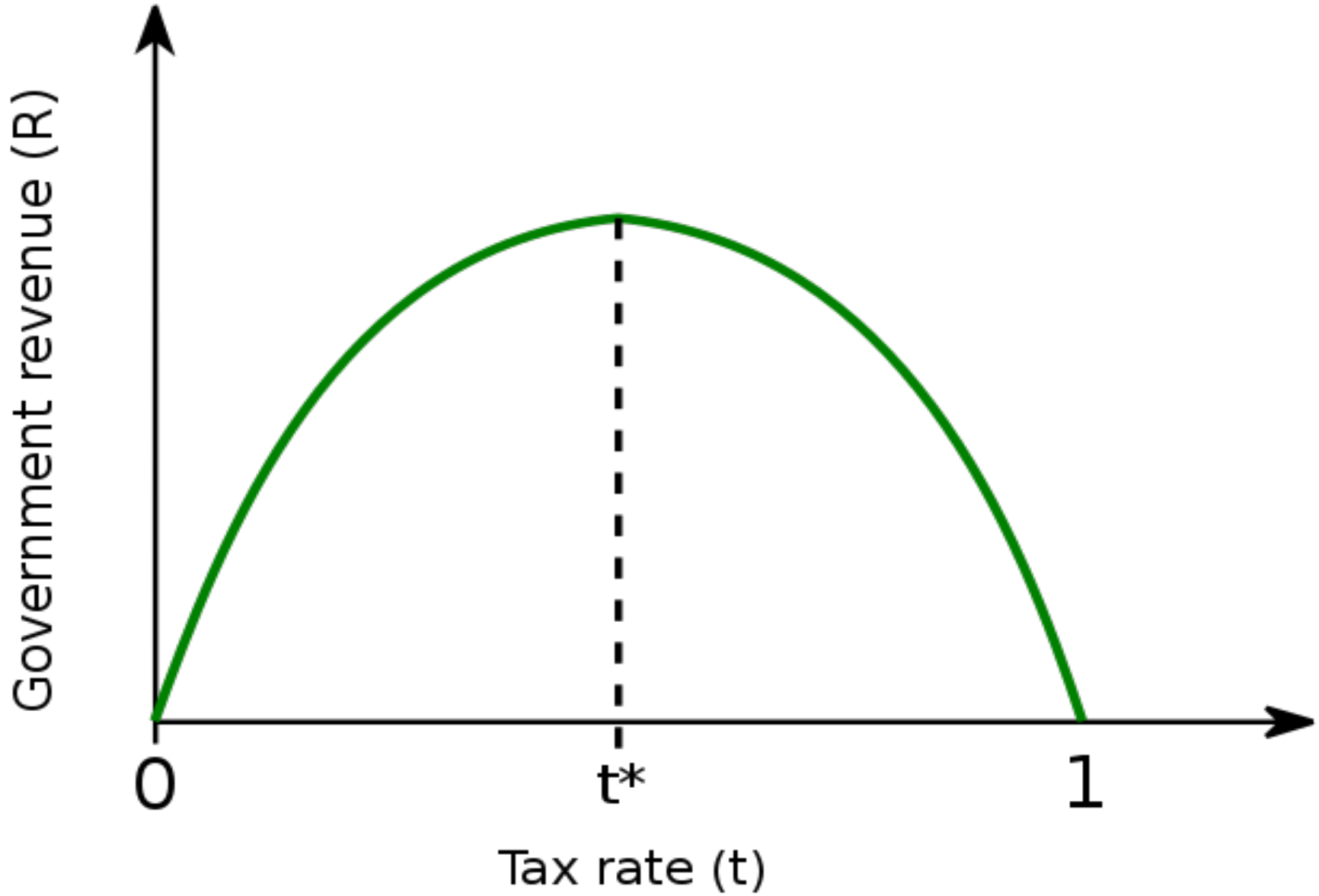
- How do you address the environmental costs of economic development?
- How do you weigh the trade-offs?
- Where do you draw the line?

Somewhat related:
The “Laffer Curve” indicates the ideal tax rate

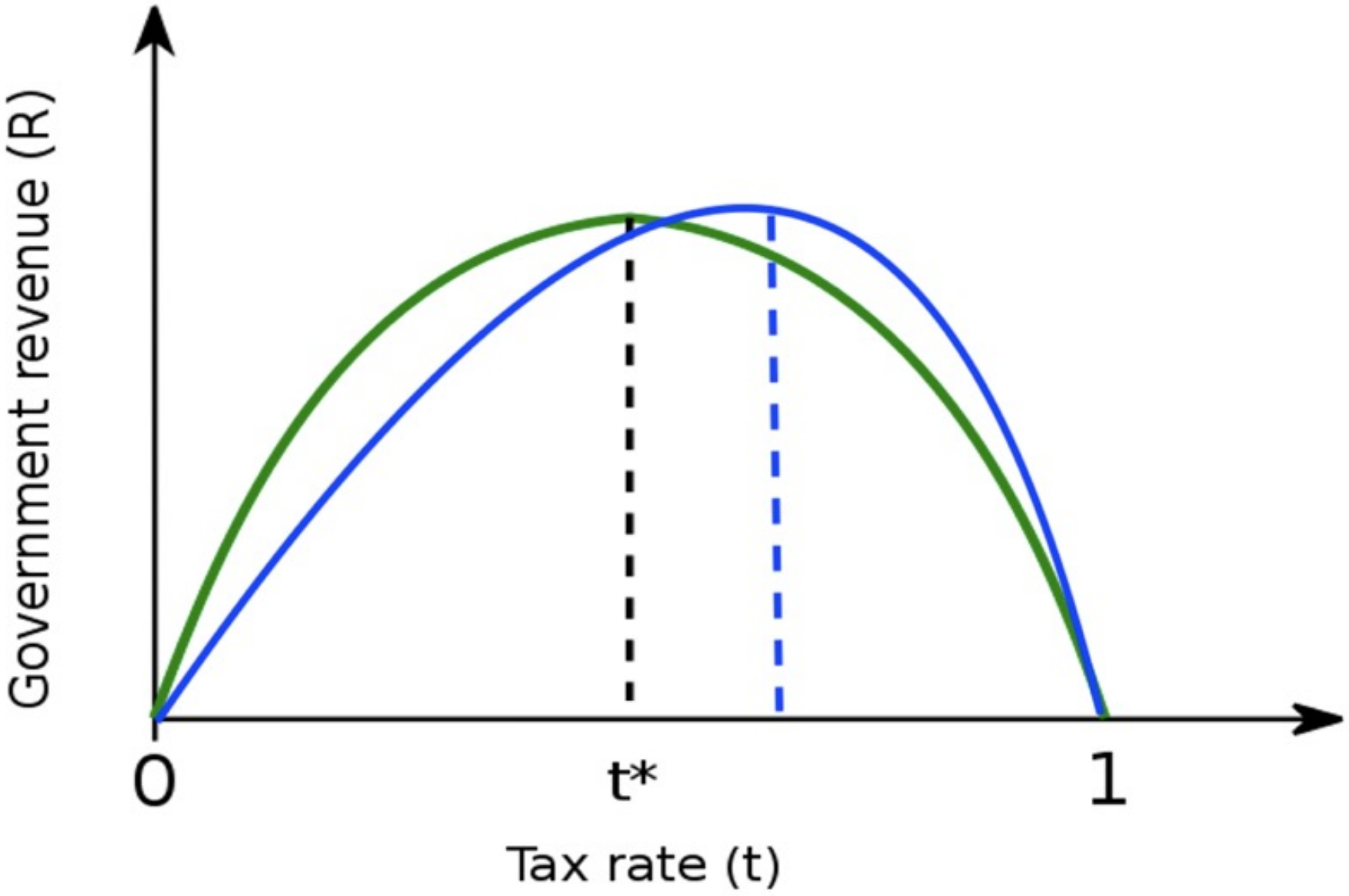


To clarify: The dotted line does not indicate a tax of 50%!

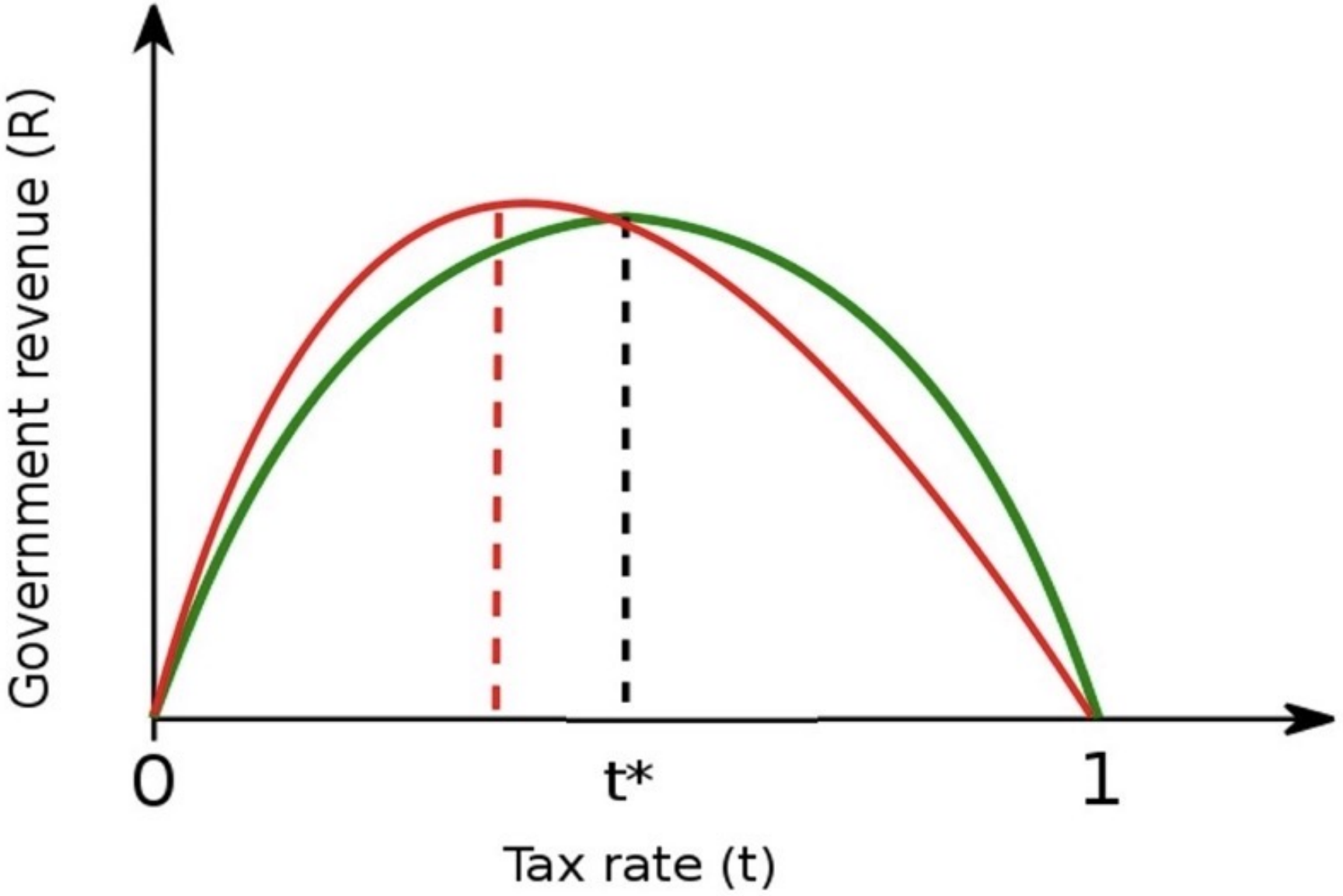
It just means that the ideal is between the two extremes.



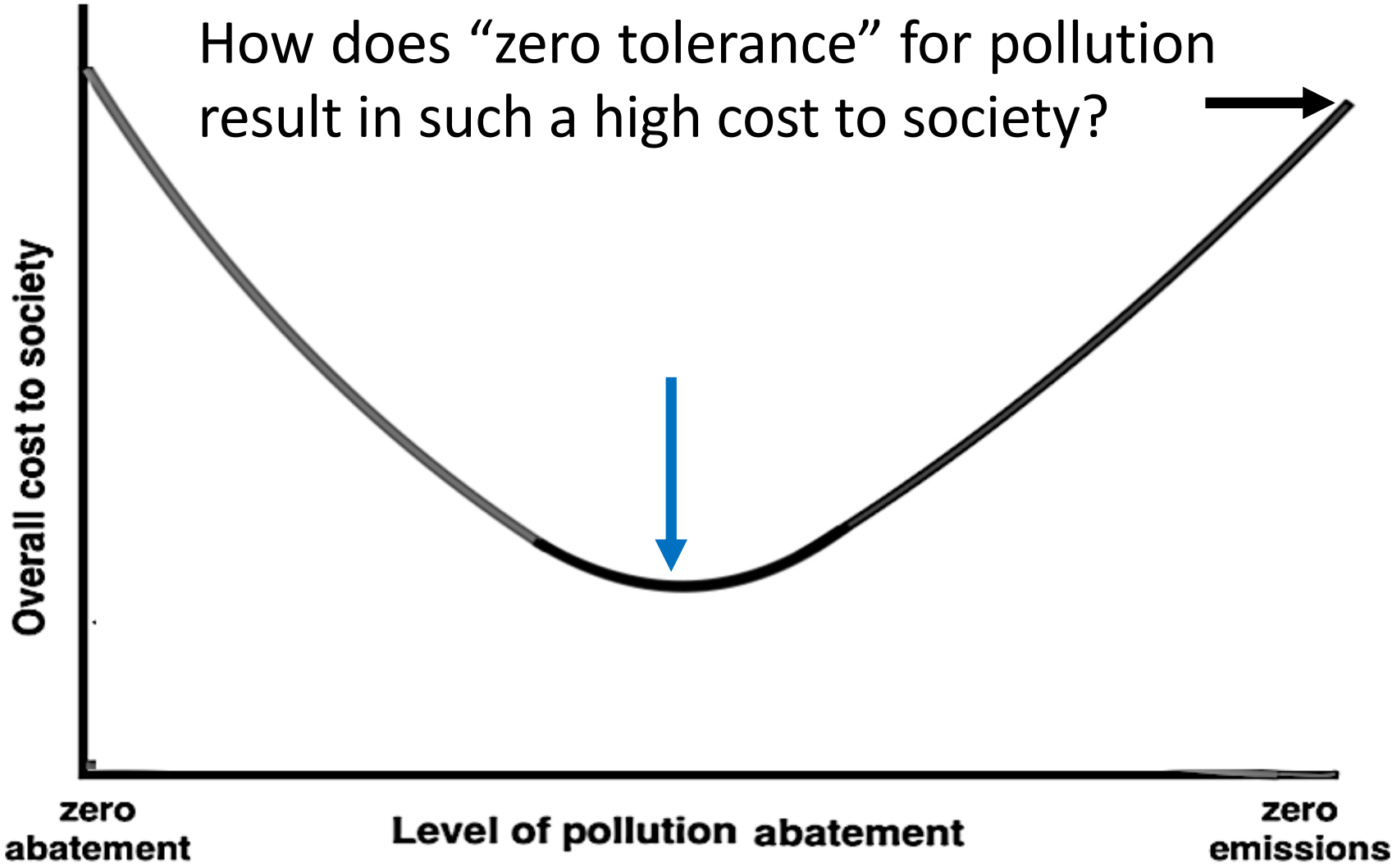
Policymakers favoring higher taxes are likely to believe the curve skews right of the ideal.



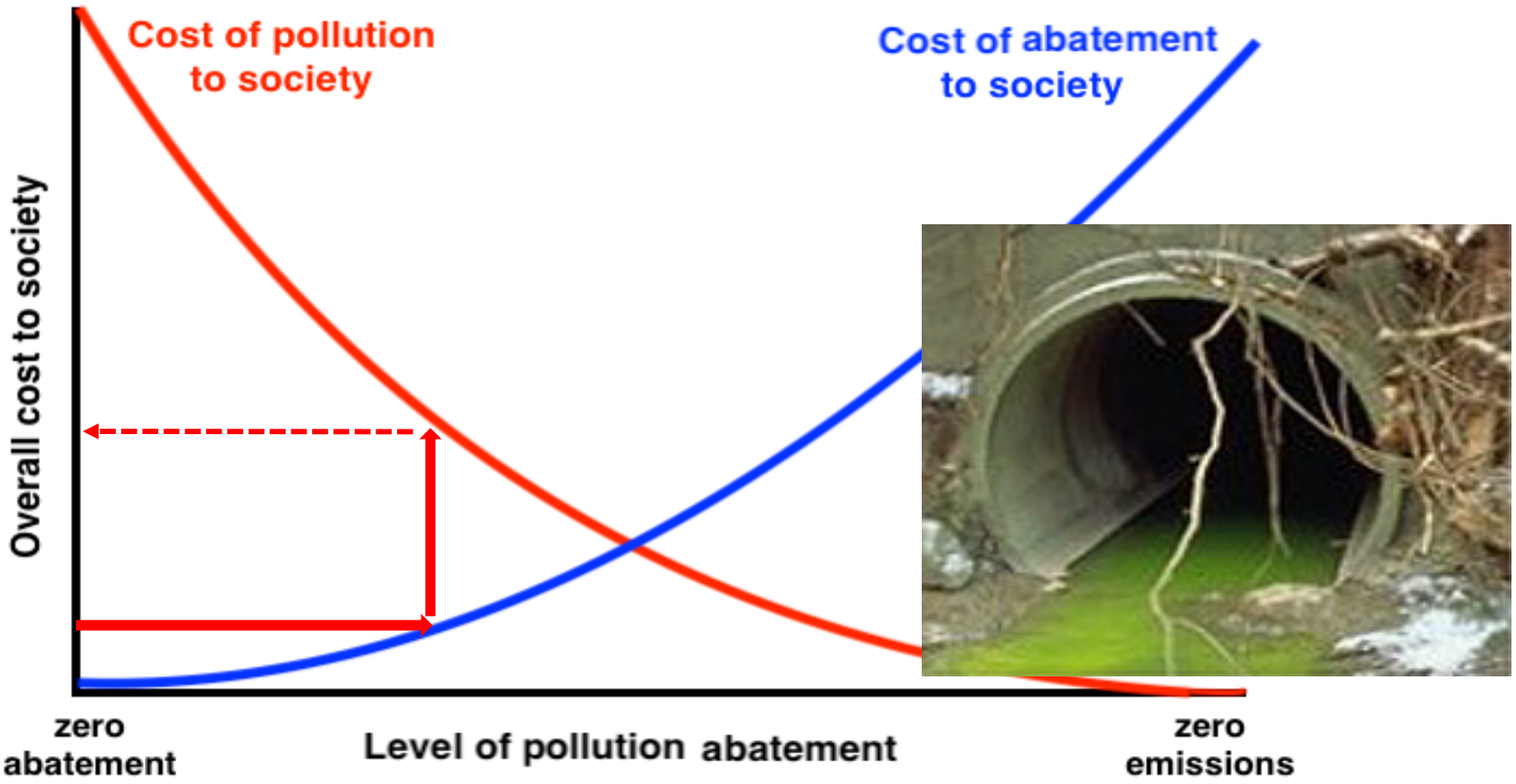
Policymakers favoring lower taxes are likely to believe the curve skews left of the ideal.



Similarly to the Laffer Curve, ideal pollution mitigation is also located somewhere between the extremes.

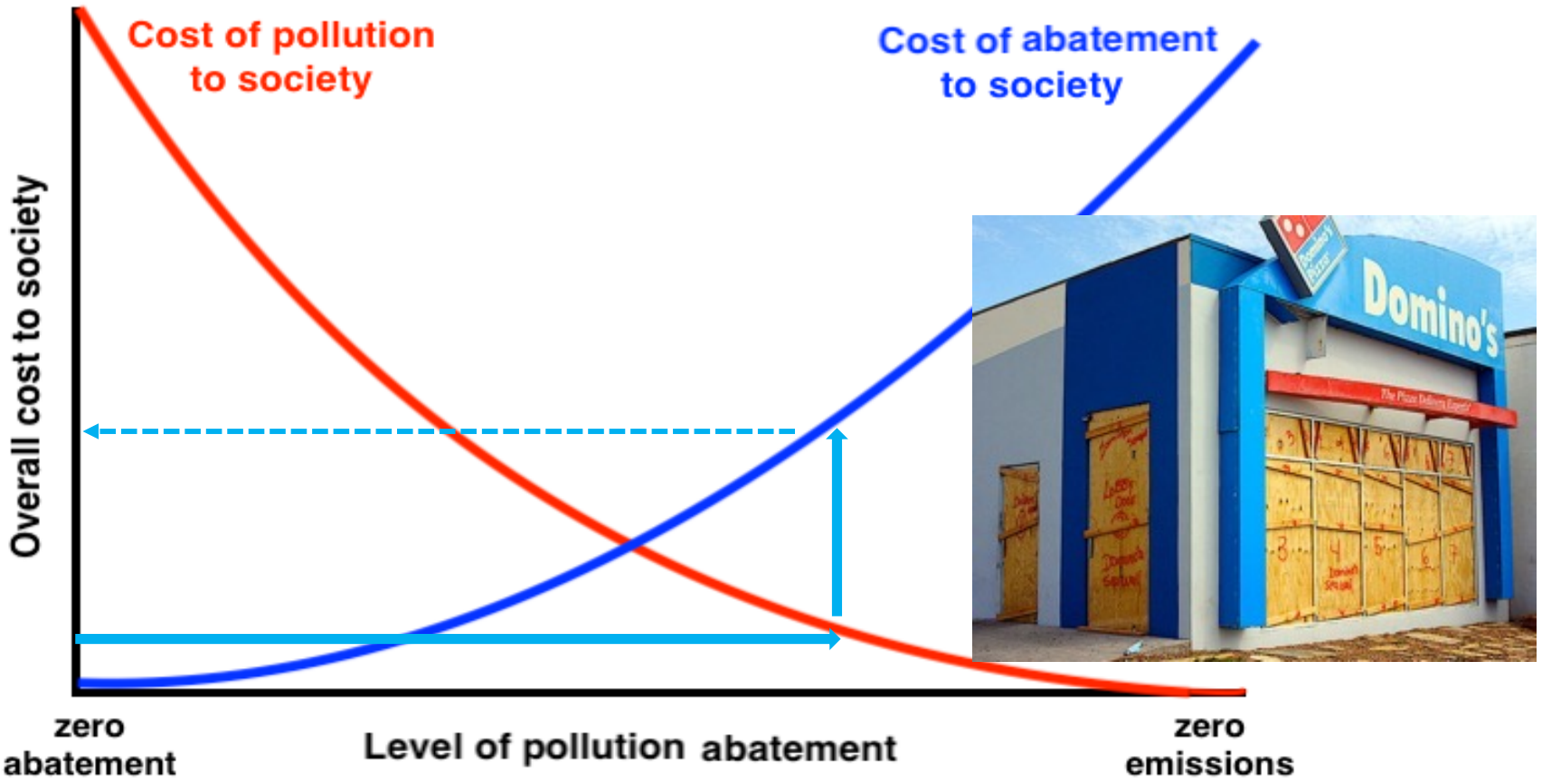


Not in textbook: Cost-benefit analysis



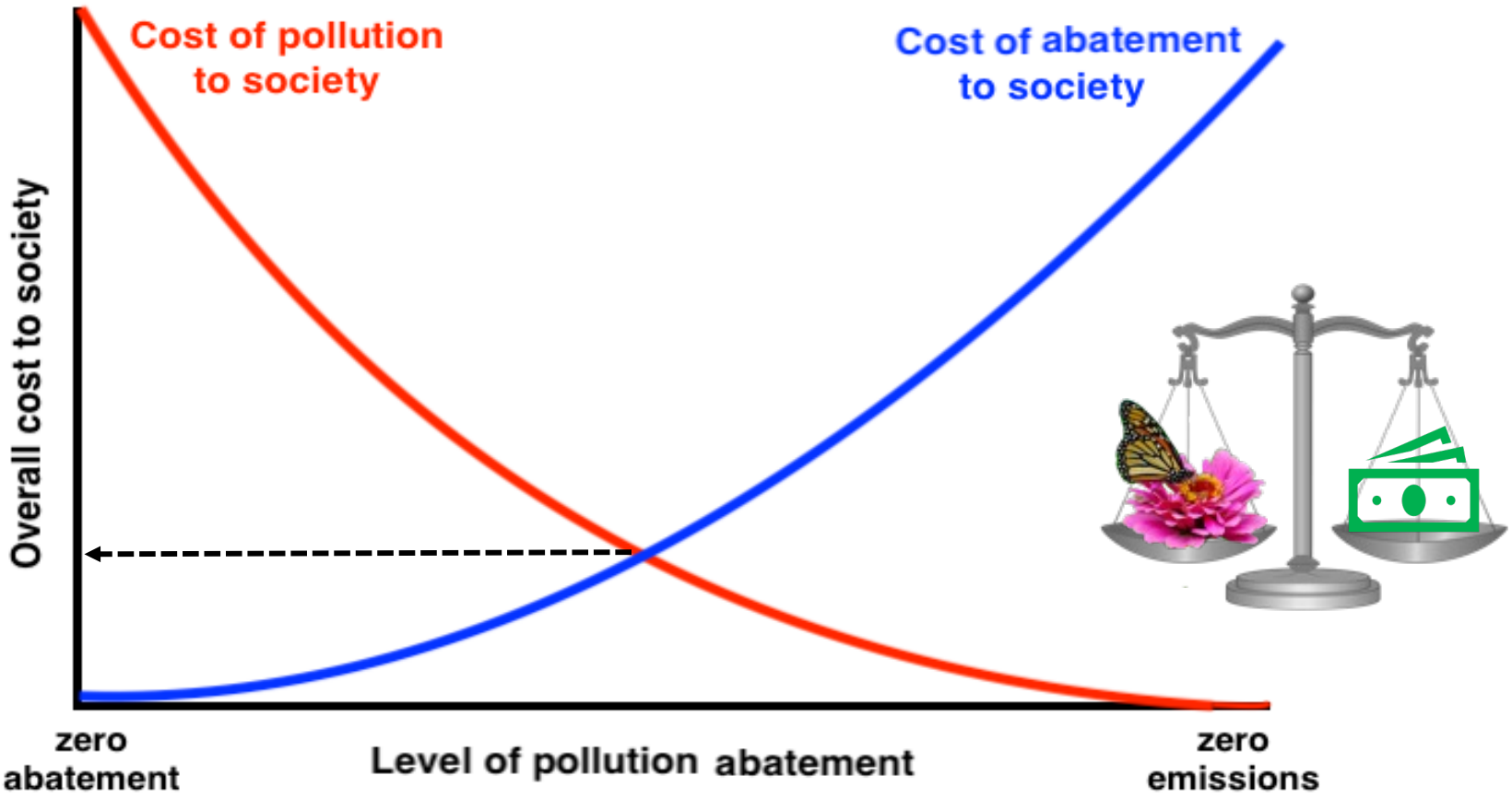
- At this point, the cost of pollution exceeds the cost of abatement
- More needs to be done to curb the damage from the pollution

Not in textbook: Cost-benefit analysis



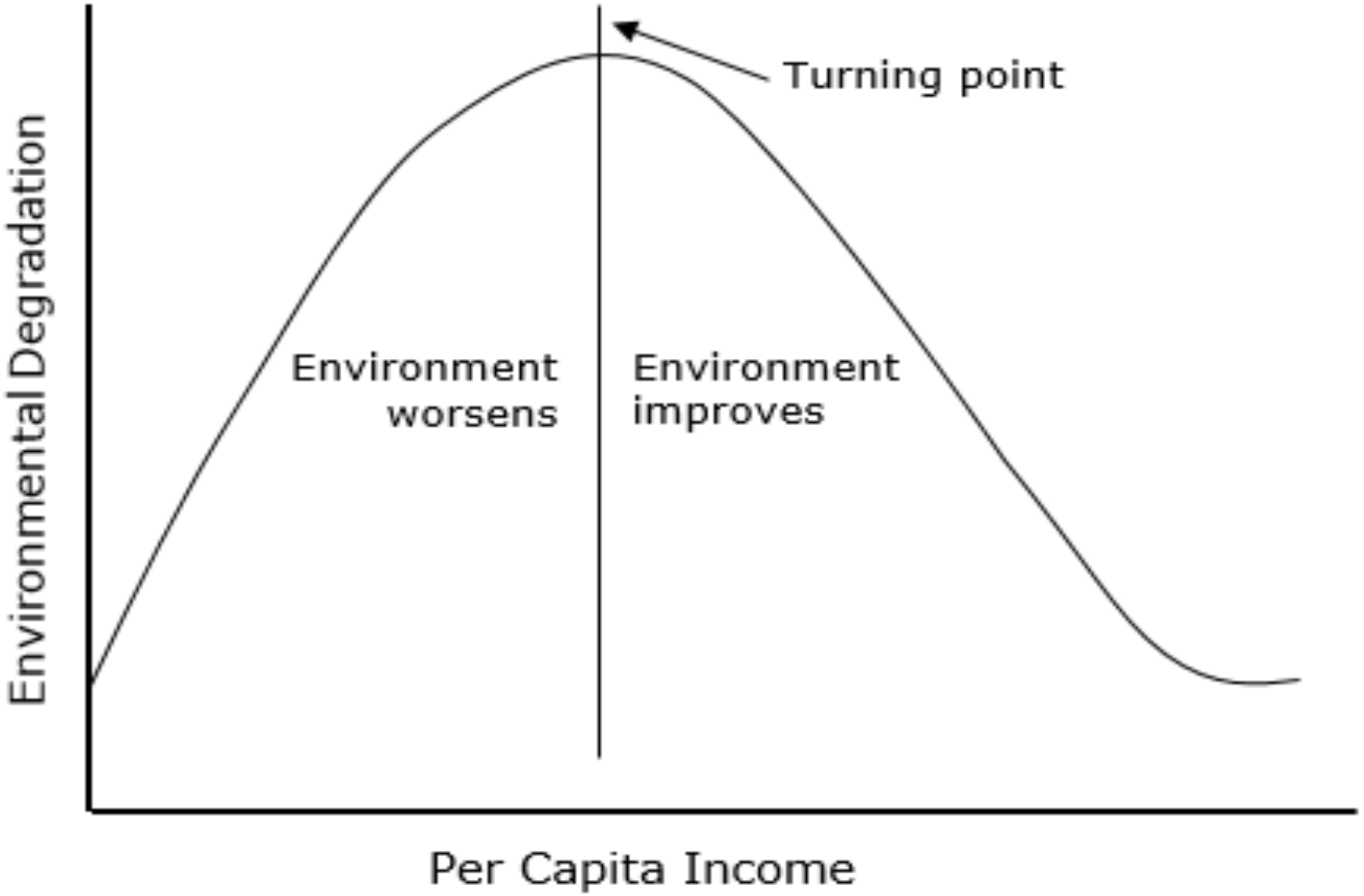
- At this point, the cost of abatement exceeds the cost of pollution
- The measures for curbing the pollution are hurting the economy

Not in textbook: Cost-benefit analysis



- This point is optimal because it results in the lowest cost to society
- This strikes a balance between environmental and economic costs

The "Kuznet Curve" shows how the environment improves as wealth increases:



Keep in mind the law of unintended consequences!

- Does the policy actually *do* good?
- Or does the policy just *feel* good?
- The results do not care about your feelings or even your intentions!