ENVIRONMENTAL REGULATION OF BUSINESS (for masters students, Fall '09)

Finance 580, M&W 2:00-3:20, in BIF 2001
(A different Fin 580 is for Phd students; get the right topic.)
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This course will study the economic impacts on businesses and individuals from public policies that address natural resources and the environment. We welcome those in MBA or MSF programs, or MS in Agricultural Economics. (If it is not over-subscribed, I will allow senior undergraduates from the College of Business only.) It is designed primarily for masters students who have had some undergraduate intermediate microeconomics and some calculus.

We will start with the concepts of externalities, public goods, property rights, market failure, and social cost-benefit analysis. Within this framework, we will consider a few additional problems such as information, uncertainty, and risk analysis. The first set of applications of these tools will involve natural resources. Other applications include air pollution, water pollution, solid waste management, and hazardous substances. In addressing each of these problems, we compare public policy responses such as administrative regulation, marketable permits, tax incentives, and direct subsidies. We will study several methods to value environmental benefits.

The course will study models that enable us to analyze the economic impacts of such regulations, including effects on output, costs, investment, R&D, and the amount of pollution. Also, distributional effects include who bears the burdens and who gets the benefits. We will learn how to analyze what is the best type of regulation for each pollutant, and we'll look at enforcement models (where government sets the price or quantity of pollution, the rate of inspection, and the penalty for noncompliance). Other specific topics include "carbon finance" and "environmental accounting."

In the case of nonrenewable resources, such as fossil fuels, we will consider the "efficient" or ideal rate of extraction, the market-driven rate of extraction, and then policy interventions that might achieve the efficient rate. For renewable resources, such as forests and fisheries, we consider the common property problem and public policies to correct it. We will also look at the disposal of wastes, policies to encourage alternatives such as recycling, and policies to discourage other alternatives such as illegal dumping or burning.

Requirements: Alternative explanations will make frequent use of algebra and occasional use of calculus. Short papers will be due every second week. Together, these papers will determine sixty points (30% of the total). The midterm exam will constitute 40 points (20% of the total), and the final exam will account for 80 points (40%). Attendance is mandatory, and participation in class will count for the remaining 20 points (10%). Scores out of the 200 possible points will be ranked on a relative scale, but grades will be assigned on an absolute scale. In other words, the cut-off between A's and B's will depend on how well those folks did.