

EC383 Environmental Economics Introduction

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Academic Support Hours: Tuesday 11.30-12.30

References & Acknowledgement

- The main textbook:

Perman, R. et al., *Natural Resource and Environmental Economics*, Fourth Edition, Pearson, 2011.

- Additional readings: Research papers in the module outline

I am grateful to Rossella Argenziano, Andrew Foster, Keita Abe, Takashi Kurosaki, Ken Miura, Kazuki Motohashi, Yoshito Takasaki, and Matt Turner for the materials on which various parts of my course materials are partly based.

Environment & Economic Development are Interconnected

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- Pollution \Rightarrow labor productivity \downarrow
- Climate change \Rightarrow agricultural output \downarrow

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- by increasing negative **externalities**
e.g. industrialization \Rightarrow pollution \uparrow
- by fostering the adoption of technologies that can mitigate these negative **externalities**
e.g. new crop varieties that are resistant to extreme climate

Jayachandran (2022)

Reviews microempirical evidence on the environmental effects of

- ① Consumption changes that arise when incomes rise
- ② Better access to credit and capital
- ③ More secure property rights
- ④ Technological progress and infrastructure
- ⑤ Improved regulatory capacity
- ⑥ Trade openness and market competition
- ⑦ Slower population growth

Externality and Market Failures

Externality:

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- The key concept in the environmental and resource economics, that drives **market failures**

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Market failure: a market does not achieve efficient allocation of resources

Economic Development and the Environment Entail Trade-offs

E.g.1 Between air quality vs. productivity

Regulating industrial pollution $\uparrow \Rightarrow$ air quality \uparrow but costs for firms \uparrow

Mexico City pollution: Residents urged to stay indoors

15 May 2019



| Some residents donned face masks as pollution levels rose

Officials in Mexico City have declared an environmental emergency after air pollution in the Mexican capital reached levels potentially dangerous to human health.

Source: [BBC News, 15 May 2019](#)

Economic Development and the Environment Entail Trade-offs

E.g.2 Between rainforest conservation vs. local populations' welfare:
Regulating forest clearing \Rightarrow Agriculture income $\downarrow \Rightarrow$ Welfare \downarrow



Photo by Oliver T. Coomes in the Peruvian Amazon

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Q. Are there policies that improve both local populations' welfare and ecological conservation?

The Environment in Developing Economies

- Contributing more and more to environmental pollution
- More vulnerable to its effects
- Households, firms, and governments possess limited capacity and funding to invest in mitigating negative externalities



📷 A farmer burns straw stubble in a field near Sultanpur Lodhi, Punjab. Photograph: Narinder Naru/AFP via Getty Images

Delhi's smog blamed on crop fires - but farmers say they have little choice

Poor north Indian farmers think they are scapegoats for a wider problem

by [Hannah Ellis-Petersen](#) in Haryana

Advertisement

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Source: [The Guardian, Fri 8 Nov 2019](#)

Vicious Cycle between Poverty and Environmental Degradation

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- The local commons also provide some insurance for the poor (e.g. as a fallback source of food and fodder in bad crop years)

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- The poor is also vulnerable to the erosion of local commons:
 - Decimation of forests and grazing lands
 - Silting and increasing toxicity of rivers and ponds
 - Depletion of aquifers
 - Soil erosion and desertification

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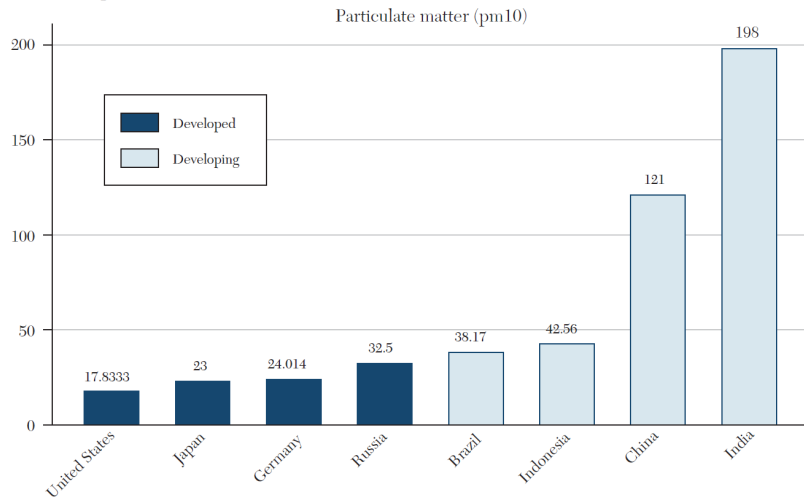
Poverty drives people to myopic exploitation of commons \Rightarrow

More erosion of local commons \Rightarrow ...

Greenstone & Jack (2015) “Envirodevonomics”

Low and middle income countries (LMIC) have higher air pollution on average

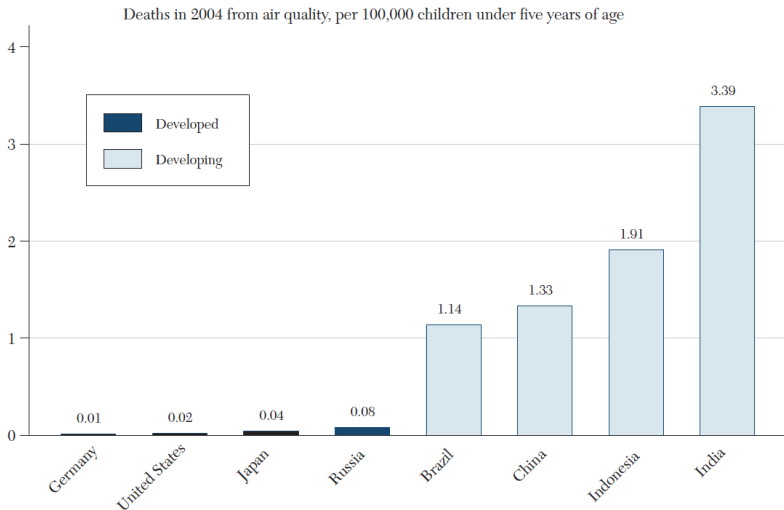
Panel A. Air pollution



Greenstone & Jack (2015) “Envirodevonomics”

LMICs have worse environmental quality (from air) on average

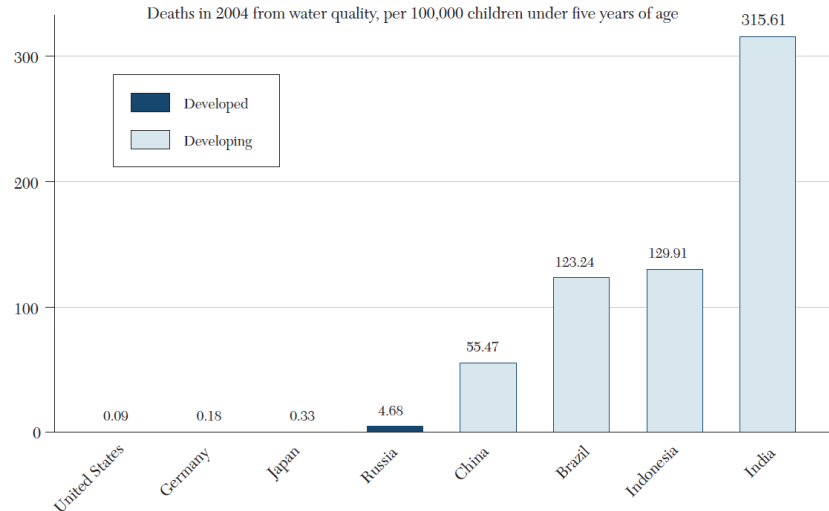
Panel A. Disease Burden from Air Pollution



Greenstone & Jack (2015) “Envirodevonomics”

LMICs have worse environmental quality (from water) on average

Panel B. Disease Burden from Water Pollution



Greenstone & Jack (2015) “Envirodevonomics”

Puzzle:

- Environmental quality in developing countries is worse, but
- Marginal willingness to pay (MWTP) for environmental quality improvements is low there

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Potential explanations:

- High marginal utility of consumption due to low income levels
- High marginal costs of environmental quality improvements
- Political economy and rent-seeking distort the social planner's problem
- Market failures (e.g. lack of information, weak property rights, missing credit markets) and behavioral biases (e.g. sunk cost) distort MWTP

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- Market failures

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This (optional) module will cover both basic theoretical framework and academic research articles focusing on developing countries. It may have more reading and workload than other undergraduate modules.

Key Concepts

- Quantity vs. Quality
- Flow vs. Stock
- Static vs. Dynamic
- Renewable vs. Non-renewable
- Private vs. Common
- Partial vs. General Equilibrium
- Urban vs. Rural
- Local vs. Regional vs. Global