

**Problem Set 1**  
Economics 441  
Prof. Brown

This problem set consists of 10 problems selected from the discussion questions in the text, and an essay question requiring some internet research. It will be graded out of 100, with each discussion question counting 8 points and the essay counting 20 points. The problem set score will count as 10% of your overall grade in the course.

You may work with up to two other students on the problem set, and the three of you should submit only one problem set with all three names on it.

Discussion Questions

Ch 1	5
Ch 2	5, 6
Ch 3	7, 8 (calculus)
Ch 4	1, 2, 10
Ch 5	3, 8

Essay

In 1994, Southern California established a pollution (emissions) permit trading program called RECLAIM. Using Internet resources, answer the following questions about the progress of the program:

- (a) What is the California government's goal in implementing this program? What are the units of allowed pollution associated with a single permit? What change in pollution does the government hope to bring about with the program (what's  $Q^*$ ?), and by when? How successful has the program been in attaining this goal so far?
  
- (b) Is there an electronic market for permits available to participants, and if so where? What does the presence or absence of this market imply about assumption (i) of the Coase theorem? Does Coase hold in this case? Can you find any research on RECLAIM that addresses the bargaining costs or the applicability of Coase, and if so what are its results?