

Before we start (finishing up transport)...

1. Feedback on transport essays (median score: 6/10)
2. What are two important (economic) points from Shewmake?
3. We didn't get to the "enviro" slide, but some essays covered these:
 - a) subsidies/taxes shift choices between modes
 - b) non-market costs (congestion) exist but they're hard to measure
 - c) roads are open-access goods that can be turned into club goods (tolls)
 - d) transport sector interlinks people, thus role for government
 - e) BUT government is not all-wise, let alone honest (lobbying)
4. Transport economics changes with space and borders
5. Econ cluster talk today 😊

Environmental indicators

How do we know if we're doing the right thing?

21 Feb 2013, David Zetland



We need to make decisions

“What is the problem we wish to solve when we try to construct a rational economic order? On certain familiar assumptions the answer is simple enough.

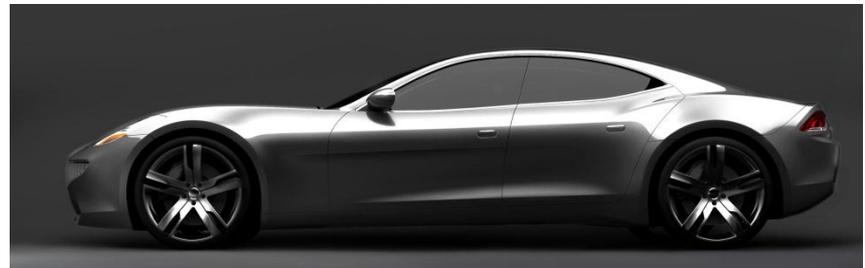
If we possess all the relevant information, if we can start out from a given system of preferences, and if we command complete knowledge of available means, the problem which remains is purely one of logic...

This, however, is emphatically *not* the economic problem which society faces..
The reason for this is that the ‘data’ from which the economic calculus starts are never for the whole society ‘given’ to a single mind...”

-- F.A. Hayek (1945)

Speaking of data... do we know if this car is any good?

information, feedback, reputation



The problem of asymmetric information

- We cannot make good decisions without a solid understanding of the expected costs and benefits for each choice.
- Price and quantity are easy once you understand *quality*.
- What affects the price of my phone?
(*quality, complementary goods, warranty, S&D, market power, search*)
- Quality is hard to convey (summation plus fraud)
 - Asymmetric information: Seller knows more than buyer (BMW)
 - TCs: search is costly in time and money
 - Experience goods: medicines, dating, foods, countries
 - Worse with missing market or non-market goods, i.e., environment
 - Shortcuts: brands, advertising, labels and recommendations



Environmental indicators

NB: Ignore easy indicators (e.g., Beijing <http://www.aqicn.info/city/beijing/>) where trouble is tracing cause or taking action. This lecture is about problems with the indicators themselves.

- Carbon permits and carbon offsets
- Footprints for water, carbon, etc.
- Organic, all natural and slavery free
- Lifecycle analysis (New Prius vs old BMW)
- Sustainable (in class: write 20 word definition)
- Are labels just an indulgence?
 - Advertising to inform consumer or lie?
 - Do hippies buy green crap? Double carbon offset bottled water vs tap?
 - Are Dutch, e.g., cheap or virtuous with bikes?
 - Pay to play but no money to victims?

What can you do?

- Can the information be captured in price (e.g., water scarcity and markets)?
- Is quality easy to define (e.g., motor oil vs bottled water)?
- How fast can people compare experiences (e.g., online reviews)?
- Can the distance between producer and consumer be reduced (e.g., Kiva*)?
- Does the producer guarantee quality or satisfaction (e.g., Viagra)?
- Is the label issuing agency bonded (e.g., financial instruments)?

Caveat Emptor!

Home work

Exercise: Find top two exported crops for Netherlands and Spain

1. Find exports in 2011/2 to top three countries, e.g., NL 2x3 grid (tons)
2. Fill similar grid with virtual water exported (tons)
3. Find water stress (quantity & quality) for country pairs (or regions)
4. Find crop value (total tons) over tons of water
5. Estimate CAP (pillar I) payment (EUR/ton) for these crops
6. Comment on (3)-(5)

Essay (<800 words): Heinken is thinking of labelling ONE of its beers with the logo "It's sustainable!" Define and describe what this label would mean. Discuss the pros and cons of this labeling idea in terms of market share, profits, brand reputation, regulation and the environment. Recommend for or against it.

Is there an easier way to help people do the right thing?

