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Solutions to Market Failure

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RESOURCE: Solutions when markets fail

Solution Type	Mechanism	Pros	Cons
Command & Control	<p>Technology Specific Methods</p> <p>Restricted quantity of goods or pollution produced</p>	<p>-reduces pollution with low monitoring cost in case of technology methods, technology is working</p> <p>-firms have reason to innovate with restricted quantity</p>	<p>-does not incentivize innovation in case of technology method.</p> <p>-create a shortage of the good, or inadvertently raise the market price</p> <p>-monitoring costs</p>
Stakeholder Negotiation	<p>Stakeholders meet to discuss how to handle the issue and reduce pollution</p>	<p>-brings everyone together for collective solution</p>	<p>-collective solution may not be the best for the environment if stakeholders are not knowledgeable</p> <p>-collective compromise is hard to achieve</p>
Green Tax	<p>Tax the good producing the pollution, or tax the pollution emissions (change price of good to fix environmental issue)</p>	<p>- internalize the externality</p>	<p>-lots of information is needed to decide the level of the tax, need to know MAC schedules and marginal benefits</p> <p>- monitoring costs</p>



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Solution Type	Mechanism	Pros	Cons
Coase Theorem	Assign property rights, stakeholders negotiate over price and quantity (price and quantity can change, local information used)	-monitoring costs are small	-note if the rights do not meet the three criteria of being well defined, divisible and defendable, then price and quantity won't be reached
Tradable Permits	The quantity of pollution is decided upon and pollution up to that level is allowed via permits (quantity determined)	-regulator can set up market without knowing the marginal cost of abatement	-if few firms participate in the market, there could be market power which raises price of permit