

Name:

### **Five Minute Exercise**

#### *Shifting Compliance Costs Completely via a Permit System*

**Given:**

A given pollutant is emitted by two sources.

Emissions are initially uncontrolled and each source emits 200 tons.

Source 1's marginal cost of abatement is given by  $MCA_1 = Qa_1/2$

Source 2's marginal cost of abatement is given by  $MCA_2 = Qa_2/5$

A total of 260 tons worth of permits are to be distributed.

**Determine:**

The number of permits to give to source 1 so that it will end up bearing all of the costs of the policy. You may take as given that the equilibrium market price of a permit will be \$20.

Answer: