

Name:

Five Minute Exercise

Finding the Equilibrium Price of an Emissions Permit

Given:

A given pollutant is emitted by two sources.

Emissions are initially uncontrolled and each source emits 50 tons.

Source 1's marginal cost of abatement is given by $MCA_1 = Qa_1/3$

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

A total of 60 tons worth of permits are to be distributed.

Determine:

The equilibrium price of an emissions permit.

Answer: