

Review Handout for the Econ Final

Definitions

capital good
contingent valuation
cost-benefit analysis
discount rate
discounting
economies of scale
existence value
hedonic valuation
life-cycle analysis

maximum sustainable yield
mitigation value
option value
path dependence
present value
proxy value
risk assessment
social vs private discount rate
stock vs flow

Questions

1. Why is the maximum sustainable yield generally *not* the profit-maximizing level of harvest? Under what condition would they be the same?
2. Is it ever economically rational to harvest a resource so intensively that it becomes extinct? Explain.
3. What is the relationship between markets and cost-benefit analysis as decision-making mechanisms?
4. What decision rule does cost-benefit analysis impose when a single option is being evaluated? When multiple options are being evaluated?
5. What is the role of monetary valuation in cost-benefit analysis? Why?
6. What methods do economists use to estimate willingness to pay for goods or services that do not have markets? How do they work?
7. Why are the costs of pollution reduction usually overestimated?
8. What is the discounting formula? What is the relationship between the discount rate and present value?
9. Why is it appropriate to discount future costs and benefits? What might it not be appropriate to discount?
10. Why might it be difficult to switch from a less to a more sustainable technology, even if the costs of the sustainable technology are lower? Give examples.