

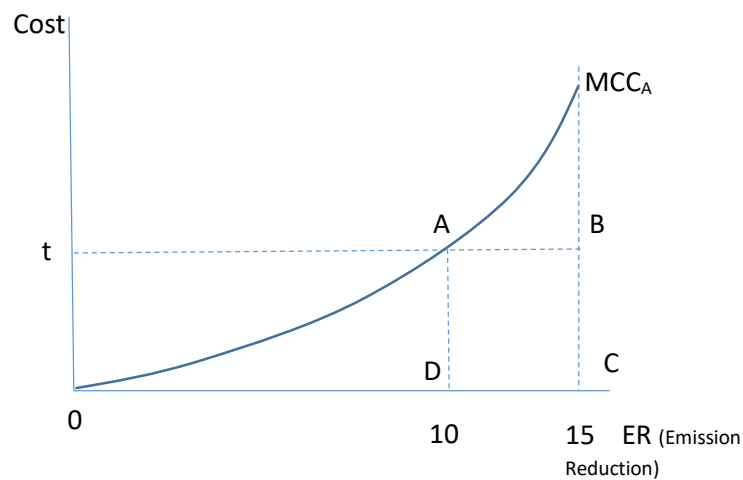
## CEV406 Week 6 Work Sheet

Topic: Understanding Emission Charges (Tax)

Setting: Firm A is currently emitting 15 units. Emission Tax is imposed and the firm needs to decide the optimal amount of emission reduction.

1. How do you decide the tax rate to achieve the emission reduction target?

2. For the following 3 cases, find total cost (total control cost + tax payment) for a company.



Case 1: No Emission Reduction

Case 2: Reduce all 15 units

Case 3: Least Cost option

3. Evaluate the advantages/disadvantages of this policy, especially in terms of cost effectiveness and dynamic efficiency.

4. Explain the firm's motivation to reduce MCC ( $\Rightarrow$  Dynamic Efficiency).