

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF ARTS

Fourth Year Special Degree Examination in Arts (Economics) - 2016/2017

Second Semester Final Examination

ECN 4275 – Environmental Economics

(Time Allowed: Two Hours)

Answer any four (04) Questions

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- (1). (a). Explain the relationship between economic activities and the environment using an appropriate flow chart. (12 marks)
- (b). Describe how and why environmental problems arise in the interaction between economics and environment outlined in part (a). (13 marks)
- (2). (a). “Environmental damage is a global threat which requires international response”. Explain the following:
- (i) Causes of environmental damage. (04 marks)
  - (ii) Sources of environmental damage. (04 marks)
  - (iii) Scope of Environmental Damage. (05 marks)
- (b). Describe the following environmental objectives
- (i) Environmental quality (04 marks)
  - (ii) Sustainable Development (04 marks)
  - (iii) Bio-diversity (04 marks)
- (3). “Environmental economics considers environmental quality as a public good and environmental damage as an externality”.
- (i). Show how could environmental quality be considered as a public good. Explain your answer focusing on the characteristics of a public good. (12 marks)
  - (ii). What is meant by negative externality? How do you consider environmental damage as a negative externality? (13 marks)

- (4). (i). Explain briefly The Coase Theorem. What are the limitations of this theorem?  
(13 marks)
- (ii). Common property resources are always over extracted. Explain why and propose effective solutions to ensure optimum use of common property resources.  
(12 marks)
- (5). (i). Environmental standards are the basis for environmental policies. When environmental standards are defined in the law, how can they be specified?  
(13 marks)
- (ii). Are environmental standards allocatively efficient? Explain your answer using the concepts of Marginal Social Benefits (MSB), Marginal Social Cost (MSC),  
(12 marks)
- (6). (i). Explain the command and control approach to implementing environmental policy. What are the limitations of this approach?  
(12 marks)
- (ii). What are the market-based instruments employed in addressing environmental problems?  
(13 marks)
- (7). (i). Explain how are the following concepts interrelated: Total Economic Value of (TEV), User Value, Existence Value.  
(12 marks)
- (ii). Outline the direct and indirect methods of measuring environmental benefits and explain in detail the procedures involved in one of the methods outlined above  
(13 marks)
- (8). Write short notes on any **two (02)** of the following:
- (i). Willingness to pay and willingness to accept concepts in environmental economics
  - (ii). Resource allocation at market level and firm level
  - (iii). Environmental damage and market failure
  - (iv). Structure of a pollution permit trading system
- (12.5 marks for each)

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