

Introduction to Environmental Economics (IKT3620)

**INTRODUCTION: ECONOMICS FOR THE
ENVIRONMENT**

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Discussion will be on...

- CONNECTIONS BETWEEN THE ECONOMY AND THE ENVIRONMENT
- REVIEW OF 10 KEY INSIGHTS FROM ENVIRONMENT AND RESOURCE ECONOMICS THAT
 - ENVIRONMENTAL SCIENTISTS
 - MANAGERS
 - POLITICIANS

} SHOULD BE AWARE OF

THE ECONOMY AND THE ENVIRONMENT

- ECONOMY IS NOT JUST ABOUT FINANCIAL COMINGS AND GOINGS WITHIN MARKETS
 - THE UNPRICED OR NON-MARKET SERVICES THAT THE NATURAL ENVIRONMENT PROVIDES US ARE EQUALLY ITS CONCERN!
- THE VALUE OF
 - PROTECTING WETLANDS FOR THEIR BIODIVERSITY
 - FLOOD DEFENSE
 - POLLUTION TREATMENT FUNCTIONS

} IS JUST AS MUCH AN ECONOMIC VALUE AS THE PRODUCTION OF OIL
- WE CAN ALL BENEFIT FROM A BETTER UNDERSTANDING OF HOW THE ECONOMY AND THE ENVIRONMENT ARE RELATED

THE ECONOMY AND THE ENVIRONMENT

- THE ECONOMY OPERATES FROM INSIDE THE ENVIRONMENTAL SYSTEM
 - WITH CONDITIONS IN THE TWO SYSTEMS BEING SIMULTANEOUSLY DETERMINED IN AN **EVOLVING AND DYNAMIC WAY**
- WHAT DO WE MEAN BY THE ECONOMY?
- WHAT DO WE MEAN BY THE ENVIRONMENT?

FOUR SERVICES FLOWS FROM THE ENVIRONMENT

1. ENVIRONMENT PROVIDES THE ECONOMIC SYSTEM WITH RESOURCES
2. THE ECONOMY USES THE ENVIRONMENT AS A WASTE SINK
3. ENVIRONMENT PROVIDES HHS WITH A DIRECT SOURCE OF AMENITY

AMENITY: *STHG THAT HELPS TO PROVIDE COMFORT, CONVENIENCE, OR ENJOYMENT*

4. ECOSYSTEM SERVICES

FOUR SERVICES FLOWS FROM THE ENVIRONMENT

- IF ECONOMY INCREASES ITS DEMAND ON THE ENVIRONMENT WITH REGARD TO ANY OF THESE FOUR SERVICE FLOWS, THIS CAN IMPACT THE ENVIRONMENT'S ABILITY TO PROVIDE OTHER SERVICES
- ECONOMY AND BIODIVERSIT (SEE THE LINK IN THE FIGURE)

WHAT DO ECONOMISTS HAVE TO SAY ABOUT THESE INTERACTIONS BETWEEN THE ECONOMY AND THE ENVIRONMENT?

1. ECONOMIC AND ENVIRONMENTAL SYSTEMS ARE DETERMINED SIMULTANEOUSLY
2. THE BEHAVIOURAL UNDERPINNINGS OF ECONOMICS MATTER FOR ENVIRONMENTAL POLICY
3. ENVIRONMENTAL RESOURCES ARE SCARCE, AND USING THEM IN ONE WAY HAS AN OPPORTUNITY COST
4. THE FREE MARKET SYSTEM CAN GENERATE THE WRONG LEVEL OF ENVIRONMENTAL QUALITY
5. HOWEVER, MARKETS BELIEVED TO BE THE BEST WAY OF ALLOCATING A VAST RANGE OF RESOURCES

WHAT DO ECONOMISTS HAVE TO SAY ABOUT THESE INTERACTIONS BETWEEN THE ECONOMY AND THE ENVIRONMENT?

6. GOVERNMENT INTERVENTION DOES NOT ALWAYS MAKE THINGS BETTER
7. ENVIRONMENTAL PROTECTION IS COSTLY
8. CHOOSING THE MAXIMUM SUSTAINABLE YIELD RARELY OPTIMAL
9. ECONOMIC GROWTH IS GOOD BUT WHAT ABOUT THE ENVIRONMENT?
10. SERIOUS ENVIRONMENTAL PROBLEMS ARE GLOBAL IN NATURE