Instructor Information

- Pascal Weel, Senior Bank Examiner at the Federal Reserve Bank of New York
- Email: pascal.weel@nyu.edu
- Office Address: NYU Wagner, Puck Building, 3rd floor.
- Office Hours: Generally Fridays, 2:00 – 4:00 p.m., in person or via Zoom (https://nyu.zoom.us/j/96217583985) or by appointment. Please email natalia.velandia@nyu.edu to set up an appointment.

Course Information

- Class Meeting Times: Wednesdays, 6:45-8:25 p.m.
- Class Location: 194 Mercer Street, Room 204 or, as needed¹, Zoom: https://nyu.zoom.us/j/93612191857

Course Prerequisites
Formally, the prerequisites are CORE-GP 1018 Microeconomics and (concurrently) CORE-GP 1011 Statistical Methods — or the equivalent classes.

Informally, the main prerequisite is that we need to speak the same language. Please contact me after the first class, if you don't meet the formal requirements, or if you have other questions or concerns.

Course Description
Economics—misguided market forces—is at the core of most environmental problems. Economics—guiding market forces in the right direction—is also fundamental to the solution.

¹ If you feel sick and/or have COVID 19 symptoms, you may connect via Zoom. Otherwise, in-person attendance is encouraged. I intend to provide a live Zoom connection for the first two weeks, and will evaluate thereafter on the way forward.
In this course we develop some of the fundamental economic tools for environmental policy analysis and management: Economics 101 applied to environmental problems—often, though not exclusively, focused on climate change.

We will also go well beyond that initial Econ 101 take, narrowly defined. In fact, focusing exclusively on Econ 101 may sometimes be positively misleading.

For example, Econ 101 traditionally tells us to price each ton of carbon dioxide (CO₂) emitted into the atmosphere, and to get out of the way. Markets will take of the rest.

Not so fast. Econ 102 tells us that not only is there a negative carbon spillover of economic activity, but also a positive learning-by-doing one. Installing the first rooftop solar panel is costly. The one hundredth is already cheaper. The millionth is a breeze. That goes for any individual roofer. It also goes for entire countries, and it is at the heart of policies from California’s Solar Initiative (formerly, its Million Solar Roofs Initiative) to Germany’s Energiewende (energy transition).

Then there’s Political Economy 101. Shouting “carbon tax” all day long will not make it so. In fact, subsidizing clean technologies may even be a necessary step to get a price on CO₂ passed in the first place.

We will discuss this and similar examples, applying Econ 101 (and 102) to the real world, keeping Political Economy 101—and real-world politics—in mind every step along the way.

I am taking over this class from Gernot Wagner, hence the materials contain a healthy dose of his writings. I have worked on climate risk at the European Central Bank and currently at the New York Fed, and will mix in those perspectives where relevant.

And to keep the Fed’s lawyers happy: opinions expressed by me do not necessarily reflect the views of the management of the Federal Reserve Bank of New York or of the Board of Governors of the Federal Reserve System. There, I wrote it.

Course and Learning Objectives
The course has three goals:

#1 build our environmental economic policy toolkit and know when to apply which tool;
#2 communicate the results of our analyses in plain English;
#3 make better-informed environmental policy decisions, all while distinguishing between positive analyses and normative judgements.

Each student is expected to prepare a brief presentation (5-10 minutes) related to the materials of a particular week and be prepared to discuss their topic with the class. Please indicate by Thursday 27 January if you have a preference for one or more particular weeks and I’ll
take that under consideration (but no guarantees!) when allocating the slots, starting in week 2. I will be lenient in my grading for those that take one of the first slots.

Further, two problem sets, two brief (800-word) op-eds or policy memos will reinforce class discussions. The latter will also ask you to pick a side. Think Economist leader: crisp, logical, and always with a well-justified point of view.

### Learning Assessment Table

<table>
<thead>
<tr>
<th>Course Objective Covered</th>
<th>Corresponding Assignment</th>
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<tbody>
<tr>
<td>#1</td>
<td>Two problem sets</td>
</tr>
<tr>
<td>#2 and #3</td>
<td>Two policy memos</td>
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<tr>
<td>#2 and #3</td>
<td>One brief presentation</td>
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<tr>
<td>#1, #2, and #3</td>
<td>In-class midterm exam</td>
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<tr>
<td>#1, #2, and #3</td>
<td>Final exam</td>
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### Required Readings

There are two required texts for the class: Nathaniel Keohane and Sheila Olmstead’s *Markets and the Environment, Second Edition* (Island Press, 2016). As the book description says, “The authors provide a concise yet thorough introduction to the economic theory of environmental policy and natural resource management.” It is not a textbook, but it is a comprehensive, logical presentation we will use throughout the semester—and it does have graphs and tables. We will refer to it as “TEXT” throughout this syllabus.

The second, Gernot Wagner’s *But will the planet notice? How Smart Economics Can Save the World* (Farrar, Strauss & Giroux/Hill & Wang, 2011). It also is decidedly not a textbook. It is a comprehensive introduction to fundamental economic thinking applied to environmental problems. And it tries to do so in a readable, fun way. Where TEXT has graphs and tables, it has cartoons. We will refer to it as “PLANET” throughout this syllabus.

There will be several other materials, ranging from lecture notes/slides to peer-reviewed academic papers to news articles, to brief excerpts from another book of Gernot Wagner, *Climate Shock* (Princeton, 2015), joint with the late Martin Weitzman. All of those will be available online via the course Brightspace site (except PLANET, of which physical copies should be available at NYU libraries).

Beginning with week 2 of the course, come prepared to class having done the readings for the day, including any lecture notes/slides. We will use class times to (briefly) review the most important concepts and then spend the bulk of the time discussing the merits and demerits of the tools and applying them to real-world situations, in part based on your presentations.
Some might call that a “flipped classroom”: go through the fundamentals at home on your own time, then spend class time with hands-on exercises. We don’t quite go all the way. There will be problem sets and essays to do on your own. But we will generally focus class time on the how and why—including the why not—rather than just the what.

**Assessment Assignments and Evaluation**

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>%</th>
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<tbody>
<tr>
<td>Problem sets</td>
<td>Two problem sets, 5% each.</td>
<td>10%</td>
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<tr>
<td>Short essays</td>
<td>Two short essays, 5% each. You might call them “policy memos.” You might call them “op-eds.” Either way, these short essays have a point of view, they are well argued, and they come in at just around 800 words (sans bibliography). Make sure to use proper citations of materials, including those from the syllabus.</td>
<td>10%</td>
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<tr>
<td>Presentation</td>
<td>Brief presentation (~10 minutes) related to the materials of a particular week. There should be a clear basis in that week’s readings, but it should go beyond that (e.g., a critical assessment, current / local application, or you could leverage, where relevant, the Discussion Questions towards the end of TEXT, but be sure to look at some of the more challenging ones). Be prepared to discuss your presentation with the class. I will allocate as from week 2, taking under consideration (but no guarantees!) any stated preferences. For the presentation in week 2, you may refer to the materials from either the first or the second week. For your grade, I will consider the following: your mastery of the subject matter; critical thinking; creativity (e.g., ability to translate that week’s topic to a current/local issue); the extent to which your topic invites a discussion; quality of your input/responses in the ensuing class discussion.</td>
<td>10%</td>
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<tr>
<td>Midterm exam</td>
<td>Exam with numerical problems and (brief) essay questions, mimicking the structure of the course—including problem sets and short essays.</td>
<td>20%</td>
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<tr>
<td>Final Exam</td>
<td>Exam with numerical problems and (brief) essay questions, mimicking the structure of the course—including problem sets and short essays.</td>
<td>40%</td>
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<td>Participation</td>
<td>Actively engage with the readings and participate in class discussions. Bonus points for anyone able to point to recent news stories or other readings relevant to the topic at hand. Please post them, by 9:00 p.m. the night before each class, on NYU Classes and be prepared to elaborate during class.</td>
<td>10%</td>
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<tr>
<td>Total</td>
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<td>100%</td>
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All written assessments are individual. Discuss the topic with each other; join up in reading groups; come to office hours alone or in groups to discuss details, but submit your own, individual problem sets and essays.

Problem sets are due, electronically via NYU Courses, by the beginning of class on February 16th and April 6th. Essays are due via NYU Classes by the beginning of class on February 23rd and April 27th. You will be given a 1-week grace period if your presentation coincides with one of these dates.

If you need more time, you will need to optimize in light of the following time-grade tradeoff: You will lose ½ point (out of a possible 5 for each assignment, problem set or essay) immediately, and another ½ point for each additional 24 hours the assignment is late.

To request a regrade on any assignment, send me an email with your full assignment attached, explaining your request within 1 week of receiving the graded assignment. I will re-grade the entire assignment—grades may increase or decrease as a result.

Overview of the Semester

- **Week 1**
  - Date: 26 January 2022
  - Topic: How costly is climate change, and why does it matter? Aka How to think like a climate/environmental economist
  - Tools/concepts: Introduction to “the mother of all benefit-cost analyses”

- **Week 2**
  - Date: 2 February 2022
  - Topic: Climate Risk, Prudential Supervision and Green Swans
  - Tools/concepts: Types of climate risk (physical/transition), transmission mechanisms, role of prudential supervision

- **Week 3**
  - Date: 9 February 2022
  - Topic: Costs and benefits of environmental protection
  - Tools/concepts: Negative externalities, net present value (NPV) analysis, BCA, and some alternative decision criteria

- **Week 4**
  - Date: 16 February 2022
  - Topic: How far how fast on climate? Aka what’s the “optimal” carbon price?
  - Extra: Planned guest speaker, Toan Phan, senior research economist at the Federal Reserve Bank of Richmond
  - Tools/concepts: Economic optimality, the limits of BC
  - **Deliverable: Problem set 1 due by 6:45 p.m. via NYU Classes**
- Week 5
  - Date: 23 February 2022
  - Topic: Optimal extraction of non-renewable resources
  - Tool/concept: Hotelling Rule
  - Deliverable: Essay 1 due by 6:45 p.m. via NYU Classes
- Week 6
  - Date: 2 March 2022
  - Topic: Renewable resources & common property problems
  - Tools/concepts: Public goods, tragedy of the commons
- Week 7: MIDTERM EXAM
  - Date: 9 March 2022

14-20 March 2022: Spring Recess

- Week 8
  - Date: 23 March 2022
  - Topic: Economics of pollution control
  - Tools/concepts: Negative externalities, efficiency, cost-effectiveness, domestic instrument choice (under certainty)
- Week 9
  - Date: 30 March 2022
  - Topic: Prices vs. Quantities
  - Tool/concept: Instrument choice under uncertainty; experience with economic policy instruments
- Week 10
  - Date: 6 April 2022
  - Topic: Prices vs. Subsidies
  - Tool/concept: Positive learning-by-doing externalities
  - Deliverable: Problem set 2 due 6:45 p.m. via NYU Classes
- Week 11
  - Date: 13 April 2022
  - Topic: Global (warming) problem, global solution
  - Tool/concept: International policy choice, game theory of climate negotiations
- Week 12
  - Date: 20 April 2022
  - Topic: Limits to growth? Aka Mind versus Matter
  - Tool/concept: Sustainability, green accounting, technology progress
- Week 13
  - Date: 27 April 2022
  - Tool/concept: Rebound effect, spatial leakage, Green Paradox (temporal leakage)
- Week 14
Date: 4 May 2022

Topic: How to make the planet notice Aka Economic thinking applied to environmental problems

Tools/concepts: Review & wrap-up

Deliverable: Essay 2 due by 6:45 p.m. via NYU Classes

- Week 15: FINAL EXAM (exact date to be announced via Announcement in Brightspace)

Detailed Course Overview

“TEXT” here will refer to: Keohane, Nathaniel and Sheila Olmstead, Markets and the Environment, Second Edition, Island Press, 2016. (Note this is the second edition, considerably updated from the first.)

“PLANET” here will refer to: Wagner, Gernot, But will the planet notice? How Smart Economics Can Save the World, Farrar, Strauss & Giroux/Hill & Wang, 2011. (Page number are equal across hardcover, paperback, and electronic editions.)

WEEK 1: How costly is climate change, and why does it matter? Aka How to think like a climate/environmental economist

Readings

3. PLANET, pp. 3-14: Preface “Doing Good.”

Recommended Reading2


WEEK 2: Climate Risk, Prudential Supervision & Green Swans

Readings

1. Please make sure you review last week’s readings, especially if you didn’t do so already before the first class.

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2 Recommended readings are typically academic, oft-technical papers that aren’t required but good to have taken a look at. Coase’s essay is not, in fact, technical. It surely is a classic, though.
2. Bolton, Patrick et al., “The green swan: Central banking and financial stability in the age of climate change”, January 2020. [Focus on Executive Summary, Sections 1 & 2 and Conclusion]


Recommended Readings
1. European Central Bank, “Guide on climate-related and environmental risks”, November 2020. [Focus on Sections 1 and 3]

WEEK 3: Costs and benefits of environmental protection

Readings
1. TEXT, pp. 35-68: Chapter 3 "The Benefits and Costs of Environmental Protection."

Recommended Readings
3. Sign up for Federal Reserve Bank of San Francisco Virtual Seminar on Climate Economics for 10 February 2022 with William Nordhaus: “Climate Policy after COPs" (or listen to the recording, which should become available some time after the seminar).

WEEK 4: How far how fast on climate? Aka what’s the “optimal” carbon price?

Readings

Recommended Readings

WEEK 5: Optimal extraction of non-renewable resources

Readings
1. TEXT, pp. 99-112: Chapter 6, “Managing Stocks: Natural Resources as Capital Assets”
2. Covert, Thomas, Michael Greenstone and Christopher R. Knittel. “Will We Ever Stop Using Fossil Fuels?” Journal of Economic Perspectives 30(1), 2016:

Recommended Reading

WEEK 6: Renewable resources & common property problems

Readings
2. PLANET, pp. 79-101: “Fewer Fish, More Dough”

Recommended Reading
1. TEXT, pp. 184-189: Chapter 9’s subsection on “Market-based instruments for managing natural resources.”

WEEK 7: MIDTERM EXAM

WEEK 8: Economics of pollution control

Readings
1. TEXT, pp. 139-162 and 167: Chapter 8, “Principles of Market-Based Environmental Policy,” except for subsection on “Setting Prices versus Setting Quantities”
2. TEXT, pp. 168-198: Chapter 9, “The Case for Market-Based Instruments in the Real World” (Note that pp. 184-189, “Market-based instruments for managing natural resources” covers renewable resources, from week 6.)
Recommended Reading


WEEK 9: Prices vs. Quantities

Readings

1. TEXT, pp. 162-166: Chapter 8’s subsection on “Setting Prices versus Setting Quantities”
2. PLANET, pp. 102-125: Chapter 5, “Curious Company Kept”

Recommended Readings


WEEK 10: Prices vs. Subsidies

Readings

1. PLANET, pp. 174-183: Chapter 8, “Bright Idea”

Recommended Readings


WEEK 11: Global (warming) problem, global solution

Readings

3. Fabre, Adrien and Gernot Wagner, “Risky geoengineering option can make ambitious climate mitigation agreement more likely,” NYU Wagner Research paper (9 December 2019).

Recommended Readings

WEEK 12: Limits to growth? Aka Mind versus Matter

Readings
1. TEXT, pp. 231-253: Chapter 11: “Sustainability and Economic Growth”
2. PLANET, pp. 125-150: Chapter 6, “Mind versus Matter”

Recommended Reading


Readings

Recommended Reading

WEEK 14: How to make the planet notice Aka Economic thinking applied to environmental problems
Readings

WEEK 15: in-class FINAL EXAM

NYU Classes
All announcements, resources, and assignments will be delivered through the NYU Classes site.

Academic Integrity
Academic integrity is a vital component of Wagner and NYU. All students enrolled in this class are required to read and abide by Wagner’s Academic Code. All Wagner students have already read and signed the Wagner Academic Oath. Plagiarism of any form will not be tolerated and students in this class are expected to report violations to me. If any student in this class is unsure about what is expected of you and how to abide by the academic code, you should consult with me.

Henry and Lucy Moses Center for Students with Disabilities at NYU
Academic accommodations are available for students with disabilities. Please visit the Moses Center for Students with Disabilities (CSD) website and click on the Reasonable Accommodations and How to Register tab, or call or email CSD at (212) 998-4980 or mosescsd@nyu.edu for information. Students who are requesting academic accommodations are strongly advised to reach out to the Moses Center as early as possible in the semester for assistance.

NYU’s Calendar Policy on Religious Holidays
NYU’s Calendar Policy on Religious Holidays states that members of any religious group may, without penalty, absent themselves from classes when required in compliance with their religious obligations. Please notify me in advance of religious holidays that might coincide with exams to schedule mutually acceptable alternatives.

Acknowledgments
This syllabus is primarily based on the structure and content of three sets of classes:
First, Rob Stavins’ introductory environmental economics class, now titled “economics of climate change and environmental policy,” a version of which he has taught at Harvard Kennedy School for over two decades. His class is extremely well-structured, logical, and comprehensive. It’s based around building the tools—the hammer.
Second, the late, great Marty Weitzman’s various advanced environmental economics classes. His classes jumped from topic to topic, building tools along the way—sometimes literally right then and there during lecture. Where Rob’s class introduced structure and predictability, Marty focused on teaching nimbleness, flexibility, and creativity in approaching various topics. His primary focus was always the question and problem itself—the tool came later. His focus: the nail.

Third, parts of this class have evolved from climate and energy economics and policy classes that Gernot Wagner has taught at various institutions, including Columbia, NYU Stern, and Harvard. Its first incarnation was largely based on Snorre Kverndokk and Knut Einar Rosendahl’s Energy Economics class taught at Johns Hopkins in Spring 2009 and has benefited greatly from Richard Zeckhauser’s Analytic Frameworks for Policy class at Harvard, as well as from his mentorship and guidance over the years. Prior iterations have also taken some cues from Bill Hogan’s Energy Policy Analysis class at Harvard, Paul Joskow’s former Energy Economics class at MIT, Erin Mansur’s former Energy Economics & the Environment class at Yale, and Jim Stock’s U.S. Energy Revolution and its Implications seminar at Harvard, and valuable feedback from, among others, Joe Aldy, Ken Gillingham, Matt Kahn, Katherine Rittenhouse, Steve Salant, Rob Stavins, Thomas Sterner, Marty Weitzman, Matthew ZaragozaWatkins, participants in an OurEnergyPolicy.org discussion forum, and students at Columbia, Harvard, and NYU who have taken versions of this course in the past. Thank you to all.

Anything seems off? Please let me know.