

Index

Page numbers like 999*t* refer to tables

Page numbers like 999*f* refer to figures

- AEI (autonomous energy efficiency improvement), 187–8
- aggregate externality, 17, 116, 199–200, 200*f*
- air pollution. *See also* pollution; water pollutants
 - economic activities, connection, 256
 - an environmental externality (B or B(t)), 256
 - NSP modeling of, 256–7
 - technological transformation function {F^t}, forms of, 256
- Arrow-Debreu economy, 32
 - core allocations in, 41
 - and Lindahl equilibrium, SEEE model, 51, 54
 - Negishi solution in, 65–6
 - and Pareto efficiency, 40
- assumptions, model:
 - multiple-agent (SEEE model), 19
 - NTU (SEEE model), 115
 - “open-loop,” 102
 - payoff function, SEEE/DEEE models, 113
 - TU, 114
 - under IRS, DEEE model, 147
- Benthamite solution, 36
 - Benthamite weight, drawbacks, 64–5
 - with binding boundary condition, 231
 - efficient (utilitarian) solution, 63
 - social welfare weight, 33, 63
 - transferable utility, 63–4
- binding boundaries. *See* caps
- caps:
 - “Benthamite Cap,” 233
 - emission, individual, 229–30, 233
 - “Lindahl Cap,” 233
 - payoff levels, 232–3, 232*t*
 - stringent, binding constraint, 230–1
 - stringent, “second-best” scenario, 230–1
 - welfare impacts, 232, 232*t*
- climate change. *See also* IAM models, of
 - climate change; RICE model
 - economics of, 185, 188, 222–3, 233–4
 - as an externality phenomenon, 148–50, 188
 - global and local stock externalities, correlation, 169–71
 - global environmental externality, 222
 - global GHG emission, mitigation negotiations, 168–9
 - impacts, 148–50, 166–7
 - mixed externality, implications, 166–9
 - negotiations, short-sightedness in, 167
 - RICE model of, 234
 - social aspects of, 166–7, 169
- climate externality, internalization, 188
- coalitional analysis:
 - aspects of, 110
 - externality provision, model framework, 222
 - and IEAs, 245
 - multiple players, 100
 - solutions, 110

- coalitions. *See also* stable coalitions
 - benefits, 115
 - definition, general equilibrium perspective, 45
 - environmental stability of, 114–16, 118–20
 - “scalar” association with, 113
 - in SEEE model, strategic perspective, 111
 - singletons, treatment of, 49–50
 - stability of, 114–15, 120–1
- Coase Theorem, 161–2
- concentration gap, aggregate, 229–30, 233
- connecting RICE module, 236
- consumption externality, and pollution, 13
- cooperative bargaining game:
 - and core allocations, correspondence, 93
 - of environmental externalities, 93, 110
 - monotonicity of NTU games, definition, 111
 - superadditivity of NTU games, 111
- cooperative bargaining game, DEEE model, 101–2
- outcomes, 92–3
- on simplex S^N , 103
- cooperative bargaining game, SEEE model:
 - core of, definition, 102
 - definition, 99
 - description, 100
 - disagreement point, 103
 - individual rationality (IR), 103–4
 - N-person, 100–1
 - and noncooperative Cournot-Nash game, payoff relationship, 104–10
 - on simplex S^N , 103
 - solution of, 104
- COPs (Conference of the Parties), on efficient GHG mitigation, 188
- core:
 - and Cournot-Nash equilibrium, distance measurement, 109–10
 - definition, 46
 - graphic presentation, 105*f*
 - mapping onto S^N , 47–8
 - non-empty, 48–50
 - “size” of, 50
 - “small concept” of, in economy with externality, 107
 - solution concept, 41
- core allocations:
 - and cooperative bargaining game, correspondence, 93
 - in economy with externalities, 41
 - general equilibrium approach, 42
- correlated externalities. *See also* stock externalities, model of global and local
 - definition, 169
 - global climate change and, 169–71
 - global vs. local environmental problems, 176–7
 - models of, 169–71
 - and pollution mitigation policies, 146–7
 - summary of, 183–5
- correlated externalities, policy-related scenarios:
 - asymmetric positions, 181–3
 - internalizing local and ignoring global, 180–1
 - internalizing local and providing global, 177–80
- “cost-share.” *See* “willingness to pay”
- Cournot-Nash equilibrium:
 - and core, distance measurement, 109–10
 - cross-agent transfers, *ex ante*, 18, 97
 - illustration of, 105*f*
 - inefficient, and efficient Lindahl equilibrium, 7
 - and Lindahl equilibrium, “distance,” 109
 - movement to Lindahl equilibrium, gains, 107
 - noncooperative, 72
 - numerical solution, algorithm, 97–8
 - in presence of externality, 26
 - of SEEN model, 57
 - SEEN/DEEN models, optimal solutions, 95
 - social optima, contrasted with insufficient, 16
 - strategy profile, in SEEN model, 95–8
 - uniqueness of, 96–7

- Cournot-Nash game, noncooperative:
 and cooperative bargaining game,
 payoff distinction, 104–10
 and Lindahl equilibrium, metric
 distance, 104–5
 payoff point, 105
 strategic form of, definition, 94
 stylized, 94
 cross-agent transfers, 63–4, 66, 70–1.
 See also ex ante transfers
 ex ante, 18, 97
 CRS (constant returns to scale), 147,
 187
 assumptions, IAMs, 187–9, 202–3

 DEEE model, 23
 assumptions, 146–7
 blocking rule, definition, 45–6
 coalition, definition, 45
 cooperative bargaining game,
 outcomes, 92–3
 economy-environment interactions,
 description of, 29–30
 efficiency allocations, 40
 efficiency condition, 38–41
 and exhaustible resource extraction
 model, 207–8
 extensions, 146, 212–13
 externality, efficient level $B^*(t)$, 40
 feasible allocation and Pareto
 efficiency, 36–7
 game-theoretic perspective, 92
 general equilibrium and strategic
 approaches, connections, 121–2
 of global and local stock externalities,
 correlated, 171–6
 under IRS assumption, 147
 mixed externality, 146–7, 150
 motion equation, 24–5
 optimal control problem, 23–4,
 67–8
 optimal solutions and agent's
 payoffs, 44
 payoff functions, NTU games, 113
 and RICE model, homomorphic
 connection, 235
 Samuelson rule, dynamic, 39
 social welfare weights $\{\phi_i\}$, definition,
 35
 solution structure, 35–7

 of stock externalities, 39, 102, 157–8
 stringent caps, binding constraints,
 230–1
 summary, 41, 221–3
 vs. DEEN model, 28
 DEEN model:
 Cournot-Nash equilibrium, strategy
 profile, 95–8
 economy-environment interactions,
 description of, 29–30
 general equilibrium and strategic
 approaches, connections, 121–2
 Lindahl taxes, structure, 222
 as a noncooperative Cournot-Nash
 differential game, 93
 optimal control problems, system of,
 27–8
 optimal solutions, 95–6
 and RICE model, homomorphic
 connection, 235
 of stock externality, 27
 summary, 221–3
 vs. DEEE model, 28
 DICE model, 237
 “dirty” good levels, SEEE model with
 IRS, 197*t*, 198, 198*f*
 Dynamic Environmental Externality
 (Efficiency) model. *See* DEEE
 model
 Dynamic Environmental Externality
 (Nash) model. *See* DEEN model

 economic development and the
 environment, 1
 EEE (extraction with environmental
 externality), 209
 efficiency condition of, 212
 efficiency conditions:
 DEEE/SEEE models, 38–41
 of EEE, 212
 for environmental externalities, 210
 for global and local externality,
 correlation, 172–6
 of mixed externality, derivation, 150,
 153–8
 for public good provision, 32
 efficiency criterion (Samuelson rule), 32
 emission cap, individual, 229–30, 233
 empirical environmental models. *See*
 environmental models, empirical

- endowment constraint, 18
 - aggregate (ω), 18, 71
 - individual (ω_i), 18
- environment and economic development, 1
- environmental economics:
 - applications, 1
 - literature of, 5–6
 - modeling of, restrictions in this book, 29
 - pollution control and externalities, 3
 - theory of externality, 4
- environmental externality. *See also*
 - DEEE model; DEEN model;
 - externalities; externality provisions, environmental;
 - pollution; SEEE model; SEEN model
- defined, 12
- described through mathematic modeling, 15
- in exhaustible resource extraction models, 207–12
- game-theoretic models, 10
- monotonic property, under Lindahl principle, 115
- optimal extraction of exhaustible resources, 147
- as “output,” 20
- Pareto relevance, 13–14
- policy mitigation tools, 223
- and public “bad,” modeling difference, 30–1
- study approach in this book, 7–9
- vs. public “bad,” 14
- environmental externality, numerical example:
 - aggregate stock externality levels, 124–5, 125*f*
 - difference of payoffs to grand coalition, under Benthamite weight, 128–31
 - externality generation, 124, 124*f*
 - hybrid Nash and Cournot-Nash equilibrium, 126–7, 130*t*
 - hybrid Nash equilibrium and grand coalition, payoff difference, 126–7, 129*t*
 - payoffs of hybrid Nash equilibriums, 125–6, 128*t*
 - strategic approach, 122–31
- environmental externality provisions.
 - See* externality provisions, environmental
- environmental models, empirical:
 - Benthamite scenario, 76, 78
 - competitive equilibrium, SEEN model, 75–6
 - Cournot-Nash equilibrium scenario, 76–8
 - Nash bargaining scenario, 77–80
 - Negishi scenario, 77, 80–2
 - social optima, SEEE model, 75
 - social optimum scenario, 77, 79–80
- environmental problems,
 - characterization, 14
- ex ante* transfers. *See also* cross-agent transfers
 - cross-agent, 18, 97
 - effects on models, 71
 - endowment, 44
- ex post* transfers, 71
- exhaustible resource extraction model,
 - with environmental externalities, 207–12
 - assumption of multiple agents, 207–8
 - cost-benefit tradeoff, limitation, 206
 - and DEEE model, 207–8
 - EEE, 209
 - efficiency conditions, 210, 212
 - extraction paths in EEE, 211–12
 - Hotelling and dynamic Samuelson rule, re-assessment, 206
 - Hotelling Rule, validity in EEE, 209
 - optimal control problem, 207, 210
 - optimal extraction paths, 210–11
 - Samuelson rule, dynamic, 210
 - shadow prices, 210–11
- exhaustible resources:
 - extraction and consumption,
 - environmental consequences, 205
 - optimal extraction models, 147
- exogenous endowment (resource)
 - constraint (ω_i), 18
- external effects, 2
 - cumulative, concept of, 23
- externalities. *See also specific externalities*
 - categories of, 12
 - characterization (Bator), 12

- externalities. (cont.)
 - consumption, 13, 18
 - core allocations in economy with, 41
 - cost-share for, 62
 - “cost-share ratios,” of
 - environmental, 60
 - defined in this book, 2
 - defined (Laffont), 2, 12, 14
 - defined (Meade), 2
 - efficiency conditions, global and
 - local, 172–6
 - efficient (pollution) levels, scenario
 - differences, 82
 - in the environment, defined, 12
 - negative (detrimental), 13
 - Pareto relevance, 13
 - pecuniary, 12
 - and pollution, 2
 - positive (beneficial), 13
 - production, 13, 18
 - theory of, 4
 - externality phenomena:
 - climate change, 148–50
 - forms of, 14
 - externality provisions, environmental, 14
 - cooperative bargaining game of, 93
 - cooperative bargaining game
 - outcomes, benefits, 110
 - cooperative vs. noncooperative, 105–10
 - Cournot-Nash game, strategic form, 94
 - decision making on, 14
 - dirty and clean energies, 20
 - dynamic provisions, 22
 - efficiency gains, 110–11
 - efficiency (internalization), incentive
 - perspective, 98–9
 - environmental economics issues,
 - framed on, 3
 - free-ride in coalitions of, 115
 - “free-riding” problem, 49, 92, 114
 - indications of, 14
 - inefficient, 16
 - IRS assumption, implications of, 147
 - IRS, role of, 188
 - Lindahl equilibrium definition in, 51–2
 - market failure, 26
 - model solutions, efficient, 33
 - modeling as a social optimum, 15–16
 - modeling frameworks, 7
 - optimal decisions on, 20
 - optimal provision problem, DEEE
 - model, 23
 - optimal provision problem, SEEE
 - model, 15
 - pollution and its mitigation, 3, 7
 - “scalar,” coalition association, 113
 - social planner’s problem in modeling
 - of, 15
 - solution concepts, 8
 - strategic cooperation, components, 99
- externality theory:
- empirical study applications,
 - problems with, 7
 - literature of, 6
- feasible allocation (DEEE model),
 - Pareto-efficient, 36–7
- fixed-point theorem, 32
- Franklin, Benjamin, 1
- “free-riding”, 25–6, 114–15, 119, 127
- identification of, 120–1
- and pollution control, collective
 - actions, 119
- prevention through “penalty rule”, 120
- game theory, cooperative. *See* IEAs
- game-theoretic modeling:
 - of economic reality, 92
 - of environmental externality, 10
 - in microeconomics, 91
 - pollution issues, 91
 - of SEEE/DEEE models, 42, 92, 94, 121
 - solutions, numerical example, 94, 122–31
- GAMS code, 77–8
- Groves-Clarke mechanism, 4
- homogeneous externality, SEEE and
 - DEEE models assuming, 149
- Hotelling rule, 147, 206, 209
- hybrid Nash equilibriums:
 - existence for sub-coalitions, SEEE
 - model, 112

- monotonic environmental externality, 113–14
- of SEEE model, definition, 112
- hybrid Nash equilibriums of RICE-6, solutions, 245–6
- coalitions (Lindahl principle), incentive properties, 251–6
- conclusions regarding IEAs, 250
- payoff differences (Benthamite weights), Cournot-Nash equilibrium and sub-coalitions, 251–3, 254*t*
- payoff differences (Benthamite weights), grand coalition and sub-coalition, 251, 252*t*
- payoff differences (Lindahl), grand coalition and sub-coalitions, 246–50, 247*t*
- payoff differences, observations, 246–8
- simulation results, discussion, 248–50
- hybrid Nash game, 111
 - definition, in SEEE model, 111
 - monotonic externality, definition, 113–14
 - monotonic, SEEE model, 112–13
 - superadditivity, sub-coalitions, 112
- IAM models, of climate change, 234
 - CRS assumption, 187, 202–3
 - limitations in negotiations, 203
 - Nash bargaining solution, 80
 - RICE model, 234, 242
 - role in IPCC reports and COPs, 188–9
 - stock externality, treatment as a, 188, 242
- IAMs:
 - of climate change, 80, 234
 - CRS assumption of, 187–9, 202–3
 - economies of scale (AEEI), 187
 - limitations in climate negotiations, 203
 - Negishi solutions in, 65
- IEAs, 91. *See also* hybrid Nash equilibriums of RICE-6, solutions
 - coalitional analysis, 100, 222–3, 245
 - and cooperative game theory, 91
 - formation, 245
 - grand coalition, internal instability, 244
 - Lindahl principle, facilitating, 256
 - predictions under Lindahl, 251–6
 - RICE model, results, 222–3
 - “self-enforcing,” 244
- increasing returns to scale (IRS). *See* IRS; IRS, and climate change negotiations
- individual rationality (IR). *See* IR (individual rationality)
- integrated assessment models (IAMs). *See* IAM models, of climate change; IAMs
- intergenerational externality, 149
- international environmental agreements (IEAs). *See* IEAs
- IR (individual rationality), 103–4
 - disagreement point (payoff allocation), 103
- IRS, 11, 147. *See also* externality provisions, environmental and climate change research, lack of, 187
 - importance in economy and industries, 185–7
 - “ultra-effectiveness,” 189
- IRS, and climate change negotiations, 201–5
 - efficient solution of SEEE model, target of negotiations, 201–2
 - in energy-intensive industries, 201–5
 - GHG emissions, in energy-intensive industries, 202–4
 - local region concerns, effect, 202
- Kaldor-Hicks criterion, 150, 161, 166, 168
- Kyoto Protocol, 182, 204, 229, 244
- Lindahl economy, 4
 - welfare theorems, 32, 70
- Lindahl equilibrium:
 - and Cournot-Nash equilibrium, “distance,” 109
 - defined, 51
 - efficient, and inefficient Cournot-Nash equilibrium, 7
 - in externality provision problems, 51–2

- Lindahl equilibrium: (cont.)
 illustration, 105*f*
 movement from noncooperative Cournot-Nash equilibrium to, gains, 107
 and noncooperative Cournot-Nash game, metric distance, 104–5
 and Walrasian equilibrium, compared, 32–3
 without transfers, 32
- Lindahl equilibrium, SEEE model, 50–5
 and Arrow-Debreu economy, 51, 54
 concept of, differences in models, 52
 with cost-share ratio $\{r_i(x_i^*)\}$, 59
 economy with public goods, theorems, 51
 and first welfare theorem, 70
 incentive properties, without transfers, 54
 Pareto efficiency, 51
 and second welfare theorem, 71
 and Walrasian equilibrium, 32–3, 51
- Lindahl equilibrium, without transfers, 52–5, 57–60
 and Negishi solution, 66
 SEEE model, solution, 60–2
 social optimum, 61
 solution, cooperative bargaining game, 104
 and specific Lindahl tax, 224
 triangular relationships, 62, 62*f*
- Lindahl principle (arrangement), 111
 environmental externality, monotonic property under, 115
 facilitating IEAs, 256
 mitigation policies, analytical framework, 231–3
- Lindahl tax:
 and dirty good, SEEN and DEEN models, 228
 externalities, scenarios ($\{b_i\}$ and B), 228–9, 228*t*
 implementation problems, 228
 Lindahl equilibrium without transfer, numerical solution, 226–7
 Lindahl equilibrium without transfer, obtaining, 224–6
 and Pigouvian tax, 223–4
 as a policy guidance, 226
 simulation results, 227*t*
- structure, imposed in SEEN/DEEN models, 222
 and triangular relationship, 224
- mixed externality:
 aggregate levels of, 154–8
 and Coase Theorem, 161–2
 condition of presence, 149
 cross-agent, in DEEE model, 158–60
 defined, 148–9, 151–2
 dilemma of, 157
 dominantly detrimental, 159–60
 effects of, 149, 161
 efficiency conditions of, derivation, 153–8
 efficient level of externality (SEEE model), 160–2, 161*f*
 intertemporal, 152
 models of, 151–2
 policy implications in climate change, 166–9
 propositions, numerical example of, 162–6
 ramifications in climate change, 167–8
 SEEE and DEEE models, 146–7, 150
 social aspects of climate change, 166–7, 169
- mixed externality, numerical example, 162–6
 coefficients, 163*t*
 summary of solutions, 164, 166
- monotonic externality, definition, 113–14
- monotonicity. *See* NTU (non-transferable utility) games
- MRS (marginal rate of substitution), 210
 Samuelson rule, 38–9
- MRT (marginal rate of transformation), 210
 Samuelson rule, 38–9
- Nash bargaining problem:
 definition, 56
 generalized, 56
 generalized Nash SWF, definition, 55–6
 solution to, 59

- Nash bargaining solutions:
 connections, 59
 cost-share ratio $\{r_i\}$, 57–9, 61
 “cost-share” (“willingness to pay”), 57
 dependencies of, 56–7
 and Lindahl equilibrium, relationship, 55, 71–5
 Lindahl equilibrium without transfers, SEEE model, 57–60
 and original SEEE model, equivalency, 60
 SEEE and SEEN models, connection, 59–60
 SEEE model, and N-person cooperative bargaining game, 101
 and SEEE model, compatibility, 56–7
 status quo point $\{U^i\}$, 56–7
 Nash equilibrium, hybrid. *See* hybrid Nash equilibrium
 Nash game, hybrid. *See* hybrid Nash game
 Negishi solution, SEEE model:
 in Arrow-Debreu economy, 65–6
 and Benthamite solutions in RICE model, comparison, 66–7
 for economy with environmental externality, 65
 external effects, ignored, 66
 from IAM models, 65
 limitations, 66
 and Lindahl equilibrium without transfers, 66
 as reference points, in environmental models, 66
 and Walrasian equilibrium, 66
 Negishi theorem, 65
 and Walrasian equilibrium, 65
 Negishi weights, and Walrasian equilibrium, 65
New Palgrave Dictionary of Economics, The, 2
 non-excludability, of public goods, 14
 non-rivalry, of public goods, 14
 NSP (non-point source pollution), modeling of, 256–7
 NTU (non-transferable utility) games, 101
 core definition (Scarf), 102–3
 monotonicity of, definition, 111
 payoff functions, SEEE and DEEE models, 113
 superadditivity of, definition, 111
 objective function (W):
 DEEE model, 24
 maximization of, SEEE model, 17
 SEEE model, 17
 open-loop games:
 Cournot-Nash, 98, 101–2, 180
 differential, 152, 177, 180
 Pareto efficiency:
 of core, SEEE model, 46
 defined, 35–7
 and feasible allocation, 36–7
 Lindahl equilibrium outcome, 51
 Samuelson rule, criterion of, 33
 Pareto relevance, of externalities, 13–14
 Paris Agreement, 167, 169, 185, 188, 229, 244, 255–6
 payoff function (U^i):
 arguments, 17
 functional forms, 18
 in NTU games, SEEE and DEEE models, 113
 von Neuman-Morgenstern, 30
 pecuniary externality, 12
 Pigouvian taxation, 221
 in environmental economics, 223–4
 exhaustible energies, 23
 on local externalities, 183–4
 as a policy guidance, 226
 point source river water pollution model, 257–64
 Benthamite social welfare function, 259
 Cournot-Nash equilibrium, 258
 numerical approach, 261–4
 observations on solutions, 260–1
 payoffs of agents, 259
 pollution. *See also* air pollution;
 environmental externality; water pollutants
 and consumption externalities, 13
 and economic activities, 1, 15, 17, 20–1
 economic impact of, 13
 effects over time, 22–3
 “environmental amenities” model, 21

- pollution. (cont.)
 as “environmental externality,” 3
 and environmental protection, 1
 as an externality, 2
 externality models, not treated as, 22
 Franklin’s legal case, 2
 game-theoretic modeling of, 91
 local air and water models, 223
 mitigation costs, in modeling frameworks, 21
 mitigation policies, 146–7, 221–2
 mitigation, quantity control, 229
 negative (detrimental) externality, 13
 numerical results, discussion of, 261–4
 as “output,” 20
 Pareto-relevant externality, 13–14
 policy implications, 13
 and production externality, 13
 strategic cooperation, components, 99
 as a technological externality, 12–13
 upstream downstream pollution model, simulation results, 262–3*t*
 preference revelation mechanisms, 4
 noncooperative game theory, branch, 91
 production externalities, and pollution, 13
 provisions of externality. *See* externality provisions, environmental
 public bad provisions, social planner’s problem, 30–1
 public goods, as commodities, 14

 RICE model, 6-region version. *See* RICE-6 model
 RICE model, 50, 66–7, 222
 carbon cycle module, 237
 of climate change, as externality phenomenon, 188, 234, 242
 climate economics model, 234–7
 connecting module, 236
 constraint conditions, parts, 235–6
 and DEEE/DEEN models, homomorphic connection, 235
 description, mathematical, 235
 and DICE model, compared, 237
 as dynamic environmental externality provision, description, 236
 economic module, 235–6
 modules, 235–6
 objective function, 235
 summary, 242
 RICE-6 model. *See also* hybrid Nash equilibriums of RICE-6, solutions
 aggregate carbon emissions, 239*f*
 atmospheric temperature increases, 238–40, 240*f*
 capability of, 237–8
 carbon emissions, USA and CHN, 239*f*
 description of, 238
 GHG emissions, 238–40, 239*f*
 global temperature increase, 240*f*
 hybrid Nash equilibrium, solution under Lindahl principle, 245–6
 Lindahl equilibrium results in, 242, 243*t*
 payoffs and Lindahl weights, 241
 payoffs, summary results, 240–2, 241*t*
 stock externality feature, results, 238–42

 Samuelson rule, 4, 32. *See also* MRS; MRT
 dynamic, 38–9, 67, 210
 for public good provision, 32
 for SEEE model, 37–8
 static, 39
 “scalar,” association with coalition, 113
 SEEE model, 15. *See also* Negishi solution, SEEE model
 assumptions, 146–7
 Benthamite optimal solution, 36
 Benthamite (utilitarian) social welfare weight ($\varphi_i = 1$), 33
 blocking rule, definition, 45–6
 coalition, definition, 45
 consumption and production externalities in, 18
 cooperative bargaining game, outcomes, 92–3
 core allocation, mapping, 50
 core of, 46–50
 core solution concept, 41

- economy-environment interactions,
 - description of, 29–30
- efficiency allocations, 40
- efficiency conditions, 38–41
- efficiency frontier, mapping, 50
- exceptions, modeling of, 19
- extensions, 146, 212–13
- of externality, defined, 18
- externality, efficient level B^* , 40
- feasibility, definition, 35
- feasible allocation and Pareto efficiency, 36–7
- first-order derivatives, signs, 18–19
- framework compatibility, 21
- game theoretic perspective, 92
- general equilibrium and strategic approaches, connections, 121–2
- under IRS assumption, 147
- mixed externality, 146–7, 150
- movement of $\{\phi_i\}$ on S^N , 43
- multiple-agent assumption, 19
- non-linear programming problem, 67–8
- optimal solution concept onto social welfare weights, mapping, 68–9
- optimal solutions and agent's payoffs, 44
- Pareto efficiency, definition, 35–7
- payoff functions, NTU games, 113
- Samuelson rule for, 37–8
- second-order derivatives, signs, 18
- simplex S^3 projections, 68–9, 69f
- S^N and social optima, connection, 70
- social welfare weights $\{\phi_i\}$, defined, 35
- solution of, economic interpretation, 61
- solution structure, 35–7
- strategy profile, Cournot-Nash equilibrium, 95–8
- stringent caps, binding constraints, 230–1
- sub-coalitions, and SEEN model, 45
- summary, 20, 41, 221–3
- transfer issues, 70–1
- vs. SEEN model, 28
- SEEE model, with IRS:
 - coefficients, 196t
 - “dirty” good levels, 197t, 198, 198f
 - distance of outcomes, SEEE/SEEN models, 191–5
 - IRS introduction, 190–1
 - and SEEN model, use of, 189–91
 - SEEE model with IRS, numerical example, 191–5
 - aggregate externality generation, 199–200, 200f
 - efficiency and Cournot-Nash equilibrium, differences of “dirty” good levels, 198, 198f
 - externality generation, 198–9, 199f, 202–3
 - optimal “dirty” good levels, 197t
- SEEN model, 26–7
 - Cournot-Nash equilibrium, strategy profile, 95–8
 - Cournot-Nash game, strategic form, 94
- economy-environment interactions,
 - description of, 29–30
- general equilibrium and strategic approaches, connections, 121–2
- Lindahl taxes, structure, 222
- as a noncooperative Cournot-Nash game, 93
- optimal solutions, 95–6
- summary, 221–3
- vs. SEEE model, 28
- “self-enforcing”:
 - grand coalition, 127
 - IEAs, 244
 - stable coalition, 119
- “self-penalizing” rule, 120
- S^N , simplex:
 - definition, 35
 - sub-sets on, relevance, 44
- social optimum, efficiency of, 15–16
- social welfare function (SWF) W , 55–6
- social welfare weights $\{\phi_i\}$, 17
 - defined, 35
 - as exogenous parameters, 35
 - impacts on agent's contribution to externality provision, 49
 - increase on S^N , effect on payoff function U^i , 43–4
 - movement on S^N , welfare impact, 43
 - role in core allocations, 49

- solution structure, SEEE and DEEE models, 35–7
- stable coalitions. *See also* coalitions
 - external, 115, 127
 - grand coalition, 120
 - of an IAM, 251
 - internal, 115, 118–19
- stakeholders:
 - behavior of, 92
 - climate change impacts on, 166–7
 - and “free-riding” problem, 92
 - of IEAs, 244
 - interactions among, 91
 - in pollution, 19
- Static Environmental Externalities (Efficiency) model. *See* SEEE model
- Static Environmental Externalities (Nash) model. *See* SEEN model
- stock externalities, 23
 - decay rate (σ), 25
 - DEEE model of, 39, 102
 - DEEN model of, 27
 - discrete dynamics, 25
 - dynamic Samuelson rule for, 67
 - efficient provision, DEEE model, 39
 - and “flow,” in DEEE model, 24
 - global and local, correlation, 169–71, 175–6
 - motion equation of, 28
 - noncooperative provision game (DEEN), 98
- stock externalities, model of global and local, 171–6. *See also* correlated externalities
 - DEEE model extension, 171–6
 - efficient levels, 175–6
 - optimal paths, 173–5
- stock externality phenomena:
 - climate change as a, 148, 188
 - in DEEE model, 157–8
- sub-coalition S:
 - and games, condition, 111–12
 - internal and external stability, definitions, 115
 - internal stability, sufficient conditions, 117–19
 - member behavior, identification, 120–1
- superadditivity. *See* NTU (non-transferable utility) games
- SWF (social welfare function) W, 55–6
 - shares $\{a_i\}$, 55
- technological (“real”) externalities, 12
 - pollution as, 12–13
- technological transformation function ($\{F^i\}$), 16–17
 - description of, 19
- Theory of Environmental Policy*, *The* (Baumol and Oates), 4–5
 - externalities, discussion in, 6–7
- trade-off function (G^i), 16, 18
- transformation function (F^i)
 - in empirical modeling of environment, 28–9
 - forms of, 256
- triangular relationship:
 - key solution concepts, 62, 62f
 - and Lindahl tax, 224
- TU (transferable utility) games, core definition, 103
- utilitarian solution. *See* Benthamite solution
- von Neumann-Morgenstern payoff functions, and uncertainties, 30
- Walrasian economy, 32
- Walrasian equilibrium:
 - in Arrow-Debreu economy, without externality, 65
 - connection to social optimum, 65
 - and Lindahl equilibrium, compared, 32–3, 51
 - Negishi solution, 66
 - Negishi weights and, 65
- water pollutants. *See also* air pollution
 - economic activities, connection, 256
 - an environmental externality (B or $B(t)$), 256
 - NSP, modeling of, 256–7
 - technological transformation function $\{F^i\}$, forms of, 256
- welfare theorems (Lindahl), 32, 70
- “willingness to pay”:
 - and externalities, 51–2, 62, 126
 - and Lindahl equilibrium, 51–5, 74, 80