

## **ECO336 Public Economics**

### **First Writing Assignment – Supplement**

I have received several queries. Here is a set of my replies, for public consumption. If any parts below are unclear, please let me know.

What is an ‘economic’ argument? In short, this is one that emphasizes economic considerations, rather than political ones (say). For example, one might argue that a carbon tax would raise the relative price of carbon-based fuels and so lead producers and consumers to substitute away from such fuel sources etc. (I mentioned this kind of thing in a note posted on the course website). This line of argument draws attention to effects on the economy. Economic considerations such as these should be at the heart of your answer to part a), though please note: I am not telling you what to write – I am genuinely interested to see what you come up with.

The main thing to stress is that, whatever economic argument you focus on for your answer to part a), you should try to make sure that you think it is the most important reason.

Part b): given your answer to part a), in part b) you should think about potential problems with your argument – that is what the question asks about. In particular, are there any plausible reasons – that is, reasons that your readership (or an educated person) would find plausible – that might undermine that economic argument? For example, continuing the above theme, there are reasons why consumers and firms may not find it easy to substitute away from fossil fuels and products involving those, at least in the short term, so that greenhouse gases might not decline much, even in Canada. And unless attended to in the policy design, the prices of products from other countries that did not levy any carbon tax would become relatively cheaper; if demand in these rose, then world production of carbon could stay the same or conceivably even rise.

OK, now onto part c). Parts a) and b) encourage you to speculate (in an educated way) about likely effects of the tax. But that discussion will emphasize possible effects, whose size is somewhat uncertain prior to implementing the policy (at least). In part c), you are asked to pinpoint which effects would need to be quantified in order to help resolve those uncertainties.

As I have tried to emphasize, economic arguments and economic policy arguments in particular, typically depend on aspects of the world – especially aspects of the economy. And policy debate can be informed by measuring (or quantifying) those aspects. For instance, continuing the theme from above, the short-term effects of a carbon tax on the quantity of carbon fuels used depend on the price elasticity of demand for carbon-based products that would have the tax levied on them. This is an aspect of the economy that we can quantify. Its size is likely to depend on the degree to which consumers can substitute away from carbon-based fuels. One would presumably also like to know which parts of the economy use (and so emit) most carbon, to know which industries and which regions might be affected most. This is readily quantifiable. Etc.

Please let me know if you have any further questions.

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