

10. Correct. The answer is false. Taxes on pollution, pollution permits and subsidies to help to abate pollution are market oriented policies also known as 'incentive based' policies. Pollution standards, on the other hand, are a form of 'command and control' policy. The amounts of each of these policies can be seen in the figure below. A standard would be set to P_0 while a tax and subsidy would be equal to T_0 and S_0 . If P_0 marketable permits were issued the equilibrium market price would be MP_0 , which is the same as the optimal subsidy or tax.

