

29. Correct. The answer is false. If the marginal pollution costs are uncertain, to see the social losses we can consider the figure below. Suppose we believe that the marginal cost curve is MC . Then for the steep marginal benefit curve, the standard would be set at S_s and for the flat marginal benefit curve the standard would be set at S_f . For the steep marginal benefit curve the charge would be set at C_s and for the flat marginal benefit curve the standard would be set at C_f .

Now suppose that the true marginal cost curve is $MC + \sigma$. The optimal level of pollution is now S_2 under the steep case and S_4 under the flat case. We can easily see the losses under the two policies. Under a standard, we would be at S_s and S_f respectively and our losses would be to the triangles right of MB curves between MC and $MC + \sigma$. Under the charge, the pollution would be at S_1 and S_3 and the social losses would be the triangle below marginal benefit and above $MC + \sigma$ between S_1 and S_2 for the steep MB and between S_3 and S_4 for the flat MB . You can see that the losses for the charge are greater when the MB is steep and the losses are greater for the standard when the MB is flat.

