

ECON-A4000 - Economics of Global Challenges

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Return method: through mycourses by the deadline

### **Problem set 1: Question 5**

This was the pre-lecture (*Video*) for lecture 3. The video explains how the bargaining over the externality can lead to an efficient outcome if the property rights are well defined. It also explains two main sources of transaction costs that may prevent a good bargaining outcome to arise.

Consider the first example in the video where the factory pays the victim to move away.

1. Explain the logic of the hold-up problem using the numbers in the example on page 10/14. Can you think of any ways of alleviating this problem?
2. Explain the logic of the free-rider problem using the numbers on page 11/14. Can you think of any ways of alleviating this problem?