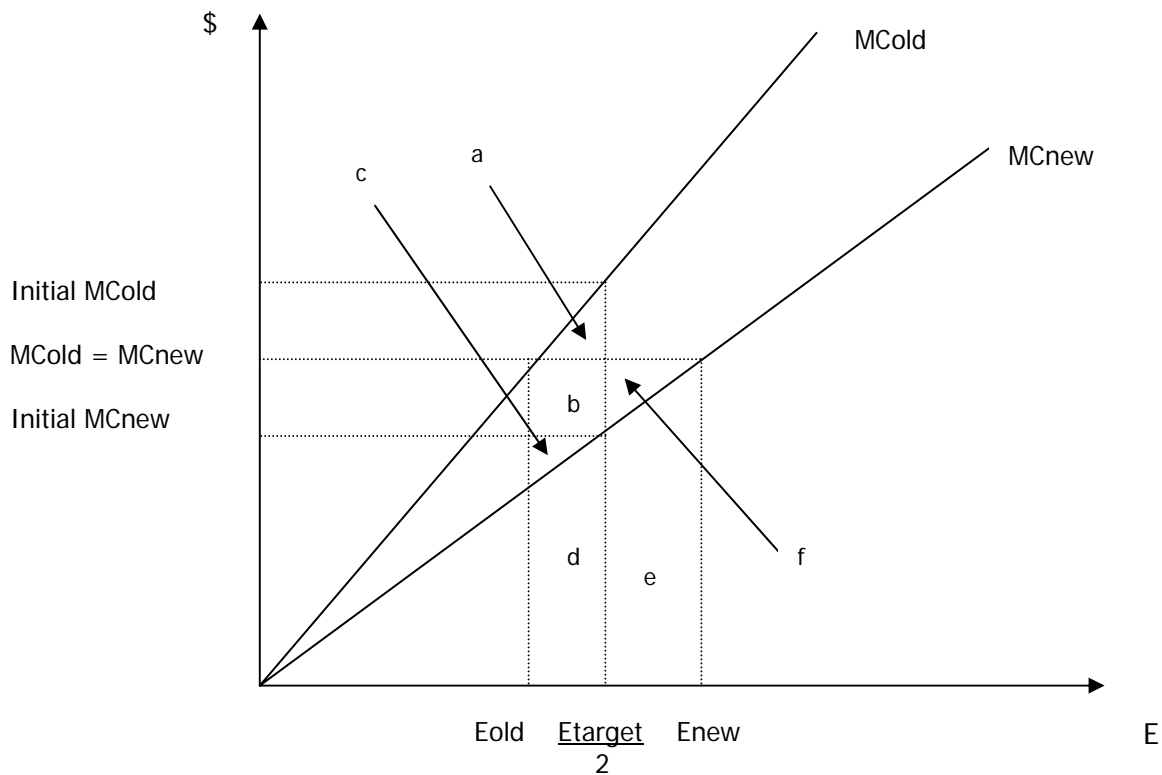


## Cost Effective Policies – The Equimarginal Principle



$MC_{old} > MC_{new}$  for all  $E$ .

Government target for environmental quality =  $E_{target}$ .

Uniform Standard =  $(E_{target} / 2)$  for old firm and new firm.

Redistribute provision of environmental quality from old to new.

$(E_{target} / 2 - E_{old}) = (E_{new} - E_{target} / 2)$ .

Reduction in industry cost due to redistribution =  $a + b + c + d$ .

Increase in industry cost due to redistribution =  $e$ .

Note that  $b + c + d = e + f$ .

Therefore, net reduction in industry cost following redistribution =  $a + f$ .