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Research and Development

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Environmental Economics and Business

Environmental economics is the field of economics that studies environmental issues and their effect on the larger economy. Environmental economists attempt to assess the value of the environment and the tangible benefits of natural resources and the ecosystem. They study the economic effects of environmental regulations, pollution, environmental-based tax policies, and property rights. Environmental economics differs from ecologic economics in that environmental economists are generally trained as economists and study the environmental effects on markets, particularly where there is market failure. Ecologic economists, on the other hand, are generally trained as ecologists who have expanded their field of study to include the effects of humans and industry on ecological systems.

Environmental economists have a role in the business of the economy. Investors are now trying to make profits from growing environmental awareness by investing in financial instruments such as energy commodities and businesses such as wind power companies. In Europe, for example, investors can trade in carbon permits—essentially, buying and selling the right to pollute. Since 2005, the European Union has required major polluters to either cut the amount of carbon dioxide they emit, or buy pollution credits on the open market. The United States may soon set up a similar system for the buying and trading of greenhouse gas emissions. Environmental economists help to determine the current price and the future price and value of these rights.

Environmental economics also studies the effects of environmental regulation, such as the Kyoto Protocol, on innovation and business. For example, Agence Francaise De Developpement published a study showing that the Kyoto Protocol has exerted significant influence on innovations in, and the quantity of, new climate change technology.

In the United States, environmental economics is studied at a branch of the Environmental Protection Agency called the National Center for Environmental Economics. The NCEE analyzes the impacts on health and the environment of regulations and policies, provides input on policy decisions, and manages the EPA’s research on environmental matters. Studies of the effects of policies are important to determine their fairness—a policy justifiable on efficiency grounds may be impractical if it imposes a disproportionate burden on a certain group. For example, political opposition to higher fuel taxes, carbon taxes, or other emissions taxes in the U.S. is frequently based on the claim that such taxes fall most heavily on low-income groups.