

The elements of choosing policy instruments:

Agent characteristics

- **Behavioral assumptions:**
 - The kind of rationality (rationalities) involved
 - Capacity to handle information
- **Agent structures**
 - Few – many
 - Large – small
 - Homogeneous - heterogeneous

The character of the institutional setting

- **Rights** structure
- **Authority** structure (local community - national state - international agreement)
- **Distributional** effects and norms of fairness/ acceptability

The character of the environmental problem

- **Pollution** (public bad)
 - type of emissions (local - global; homogeneous - heterogeneous; one - several types of emissions; 'point - nonpoint')
 - type of damages (toxic - non-toxic; accumulative - non-accumulative)
- **Public goods**
 - **type of public good** (discrete or relational; simple or complex; homogeneous or heterogeneous)
- **Cost structures** (also depend on agents and system/institutional setting)
 - Environmental costs
 - Abatement costs (input substitution, changes in production technology, cleaning facilities)
 - Transaction costs
 - Precision