

Optimal degree of privatization and the environmental problem

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Abstract

We determine the optimal degree of privatization in a mixed duopoly when the environmental problem exists. With regard to the ownership of the private firms, we analyze two cases: (h) the private firm is owned by domestic private investors and (f) it is owned by foreign private investors. A comparison of the two cases presents the following results. Partial privatization is always desirable in (h), and the optimal degree of privatization is independent of the degree of environmental damage. However, in (f), whether partial privatization is desirable or not depends on the degree of environmental damage: there are cases where full privatization or full nationalization is optimal.

JEL classification: L13; L33; Q50

Keywords: Environment; Mixed duopoly; Partial privatization

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