

Effect of the Environmental Externality on Production in an OLG Economy *

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Abstract

In this paper we analyze the effects of an environmental externality on production. In the model, environmental quality has relation to the amount of products agents produce, while it has no effects on agents' utility. It is required some maintenance (and the proper maintenance technology) to achieve social optimal allocations. And a competitive equilibrium allocation can not be social optimal, because agents concerns only his own utility.

Keywords: overlapping generations economy; environmental externality; social optimal allocation

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