

# **Environmental Economics No.2**

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## **The Economic Approach**

Although it is impossible to **remove** scarcity completely,

it is at least possible to **minimize** the negative consequences of scarcity.

People, facing situations of scarcity make an attempt to **influence** the relation between

**the amount of goods used**

+

**degree of satisfaction of needs**

This relation would be **irrelevant** if goods were available in **unlimited** amounts.

Usually, people apply the so-called **economic principle**.



The goal at hand be achieved at **the maximum level** possible given the means available.

the maximum principle

A goal be achieved to a given level using the **minimum amount** of resources.

the minimum principle

A situation in which the economic principle is fulfilled is called.....

an "**efficient**" situation.

Efficiency implies the **absence** of any **wasting of goods**.

Each kind of behavior which is based on the economic principle is called **economic behavior (or rational behavior)**.

Every agent behaving economically is called **an economic agent**.

### The circular flow

It is a simplified representation of the **interaction** between economic agents.

The circular flow portrays the structure of **real and monetary** transactions between the various sectors of an economy.

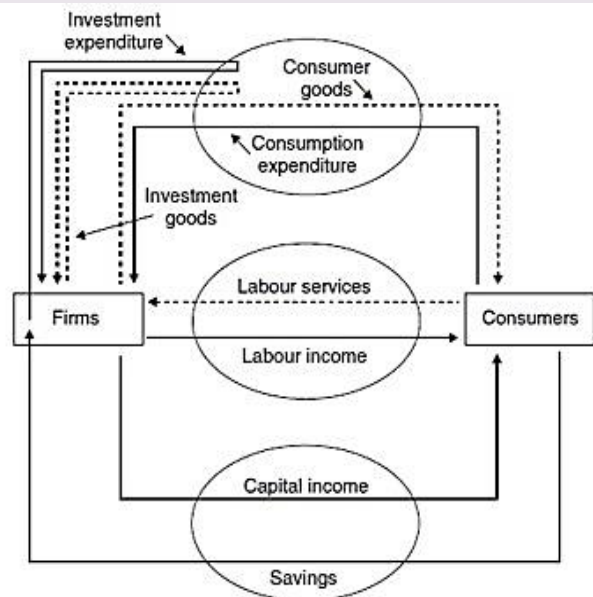
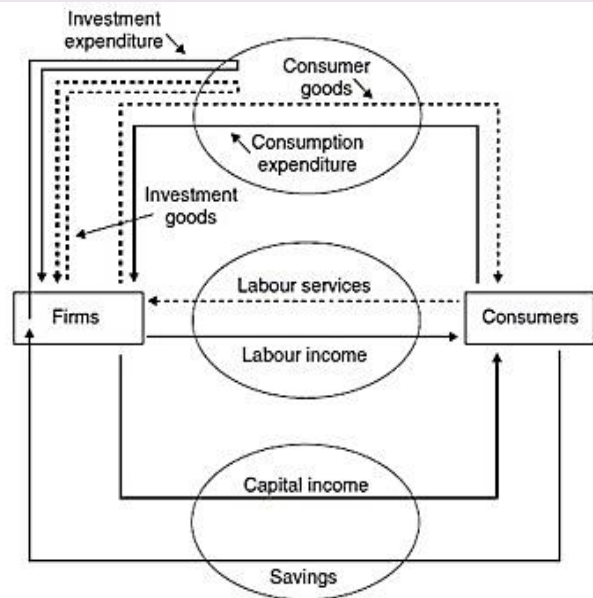


Fig. 5.1 The circular flow

## The circular flow

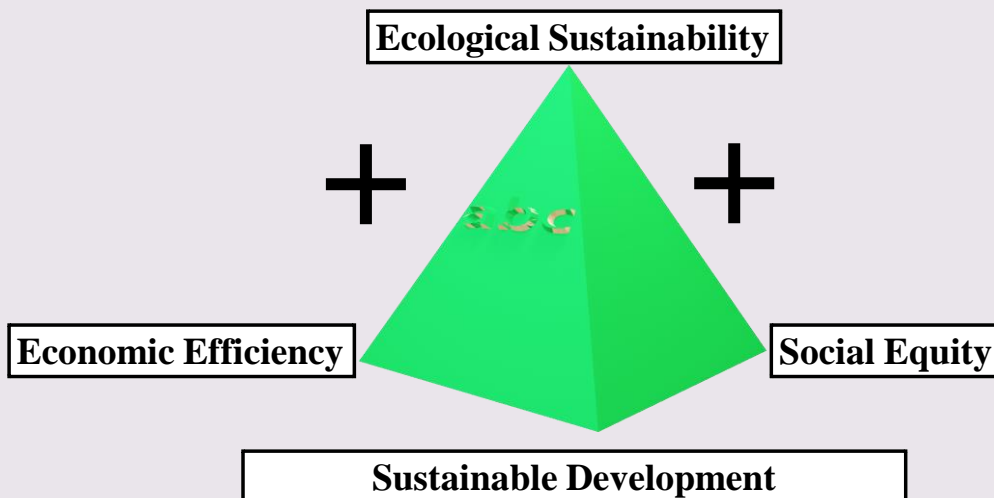
There are three main questions related to the CF:

- 1-How could **economic efficiency** be achieved?
- 2-How could **social equity** be achieved?
- 3-How could **ecological sustainability** be achieved?

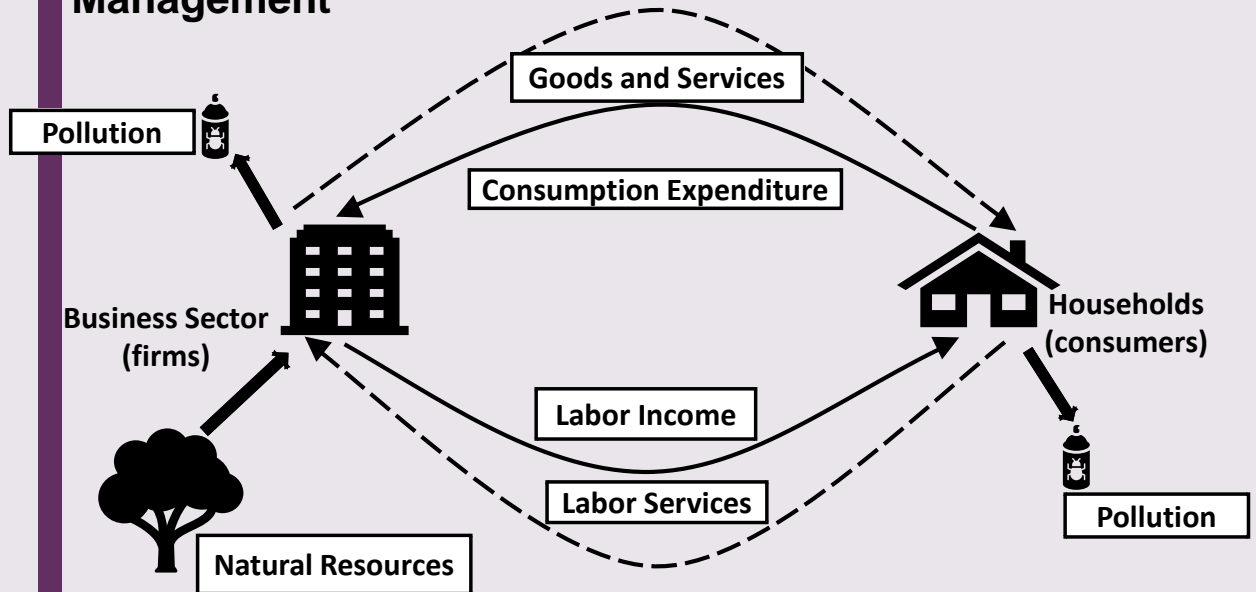


Three Goals of **Resource Management**

## Three Goals of Resource Management



## The Circular Flow and the Three Goals of Resource Management



## It should be noted that:

1

Three Goals of Resource Management

A result of

**growing awareness** of environmental issues and their relationship to the economy

2

The three goals



sustainable development

## Sustainable Development

- Development that meets the needs of **the present generation** without compromising the ability of **future generations** to meet their own needs.

This requires

- ➔ **Balancing** the demand for natural resources
- ➔ **The protection** of ecosystems

3

Pollution and environmental degradation

- ➔ the current generation
- ➔ future generations

## Note:

Distortion occurs when those who **cause pollution** do not **bear** its costs but instead **impose** them on society.

4

In the previous figure, natural factors of production appeared merely as.....

- ➔ a supplier of **raw materials** for human economic activity.

**However, Some ecological economists suggest that.....**

Human economic activity is **embedded within** the natural environment

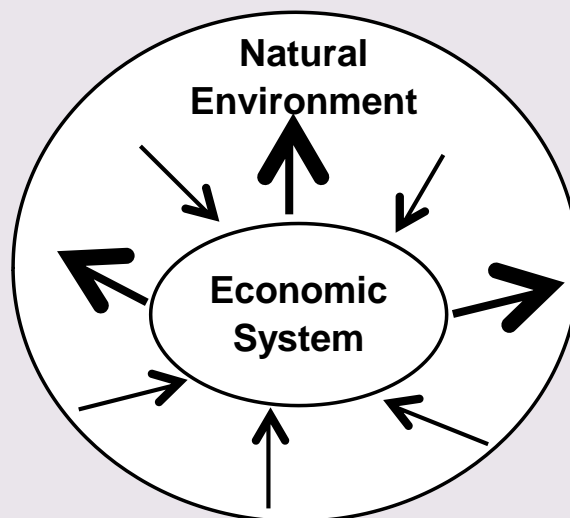
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Human economic activity crucially **depends on** numerous services provided by nature.



Therefore, the economic system created and operated by mankind must be viewed as **subordinate to nature** and a **subsystem of nature**.

## The Natural Environment and Economic System



✓ The arrows in the figure represent.....



**the diverse interdependencies**

✓ The arrows going into the economic system represent .....



**the extraction of productive factors**

✓ The arrows coming out of the economic system represent ...



**waste emissions or changes in  
landscape**

Thank you