

Contents

Preface	xiii
Acknowledgments	xvii
Water Unit Conversions	xix
1	Introduction 1
1.1	An Array of Decision Types 1
1.2	Amid the Noise 2
1.3	Supply Enhancement and Demand Management 3
1.4	Future Forces 5
1.5	Economics, Environment, and Equity 7
1.6	Organization and Conventions 8
1.7	Exercises 9
2	Optimal Allocation and Development 11
2.1	Establishing Goals 11
	<i>Part I: The Fundamental Economic Theory</i> 13
2.2	The Costs of Water Supply 13
2.3	Efficiency for a Single Water-Using Agent 17
2.4	Aggregation and Acquisition of Marginal Net Benefit Functions 29
2.5	(Aggregate) Economic Efficiency 37
2.6	The Universal Advisory Term: Opportunity Costs 41
	<i>Part II: Further Adjustments for the Idiosyncrasies of Water</i> 42
2.7	Economic Efficiency in the Presence of Return Flows 42
2.8	Economic Efficiency with Nonrivalness 44
2.9	Neutral Economic Efficiency 46
2.10	Is Water Conservation an Additional Goal? 53
2.11	Summary 55
2.12	Exercises 56

	<i>Appendix 2.A: Constrained Optimization Using the Lagrangian Method</i>	58
	2.A.1 Necessary Conditions	59
	2.A.2 Interpretation of Lagrange Multipliers	60
	2.A.3 Sufficient Conditions	60
	2.A.4 Minimization and Multiple Constraints	61
3	Efficiency in a Dynamic World	63
	3.1 Rates of Time Preference	64
	3.2 The Underlying Theory	65
	3.3 Time Values of Money	66
	3.4 What is the Social Time Value of Money?	69
	3.5 Not Risk, Not Inflation	73
	3.6 Market Revelations of the Discount Rate	75
	3.7 Discounting: A Summary	76
	3.8 Dynamic Improvement and Dynamic Efficiency	77
	3.9 Other Metrics	79
	3.10 NPV Versus the Others	81
	3.11 Is Dynamic Efficiency/Improvement Neutral or Aggregate?	82
	3.12 Dynamic Efficiency: A Two-Period Graphical Exposition	83
	3.13 Dynamic Efficiency: The Basic Calculus	85
	3.14 A Fundamental Example: Drawing from a Reservoir	86
	3.15 Extendable in Many Possible Directions	89
	3.16 How Fast Should Ground Water Be Depleted?	90
	3.17 Summary	92
	3.18 Exercises	93
	<i>Appendix 3.A: Amortization</i>	95
	<i>Appendix 3.B: Advanced Methods of Dynamic Optimization</i>	96
4	Social Institutions	99
	<i>Part I: The Economics of Institutions</i>	100
	4.1 What If You Had to Choose?	100
	4.2 The Invisible Hand and the First Theorem of Welfare Economics	105
	4.3 Market Failure	107
	4.4 Consequently, ...	114
	4.5 The Nature of Property	115
	4.6 The Assignment of Property: Who Should Get It?	117
	<i>Part II: Legal Institutions</i>	120
	4.7 Water Law	120
	4.8 Surface Water Law	120

4.9	Ground Water Law	131
4.10	Conjunctive Management	137
4.11	Treaties and Compacts	138
4.12	Summary	140
4.13	Exercises	142
5	Policy Analysis	145
5.1	Two Policy Analysis Forms: Theoretical and Empirical	146
5.2	Empirical Policy Analysis: The Ins and Outs of Compensation Tests	147
5.3	Consumer and Producer Surplus Measurement	149
5.4	Price-Rationing Policy	150
5.5	Quantity-Rationing Policy	154
5.6	Demand-Shifting Policy	156
5.7	Supply-Shifting Policy	158
5.8	Overview and Analysis of Other Policy Types	162
5.9	Incorporating ΔNB into NPV for Dynamic Policies	163
5.10	Secondary Economic Effects	166
5.11	Incommensurables and Intangibles	170
5.12	Summary	172
5.13	Exercises	172
6	Cost-Benefit Analysis	175
6.1	Policy Background	177
6.2	Required Economic Analyses: <i>Principles and Guidelines</i>	179
6.3	Envisioning CBA as More Than NPV	182
6.4	A Spreadsheet in Need of Entries	183
6.5	Obtaining the Benefits and Costs	184
6.6	An Example Project Analysis: Applewhite Reservoir	187
6.7	Multipurpose Projects	192
6.8	Using Alternative Costs as a Benefit Measure	194
6.9	The Costs of Borrowed Funds	196
6.10	Financing Projects: Implications for CBA	197
6.11	Cost Allocation by Separable Costs-Remaining Benefits	198
6.12	Summary	200
6.13	Exercises	201
7	Water Marketing	203
7.1	The Instruments of Water Marketing	204

7.2	The Upside: Unlocking the Resource from Low-Valued Applications	207
7.3	Basic Water Trade and Value Theory	208
7.4	Modified Theory in the Presence of Transaction Costs (Optional Topic)	211
7.5	A Typical Exchange Framework	214
7.6	The Downside: Guarding against Market Failures	216
7.7	Can the Downside Be Fixed?	220
7.8	The Worldwide Extent of Marketing	221
7.9	Leading U.S. Markets	222
7.10	The Grounds for Area-of-Origin Protectionism	229
7.11	The Ground Water Challenge	233
7.12	Summary	240
7.13	Exercises	241
8	Water Pricing	243
8.1	The Terms of Pricing	244
8.2	The Customary Objectives of Rate-Setting	251
8.3	Accounting Practice	253
8.4	The Economic Theory of Pricing	256
8.5	Specifying Seasonal Volumetric Rates	265
8.6	Wastewater Charges: A Complication	267
8.7	Summary	269
8.8	Exercises	270
9	Demand Analysis	273
9.1	Demand is More Demanding than Value	274
9.2	The "Requirements" Approach	275
	<i>Part I: Demand Methodology</i>	<i>277</i>
9.3	Point Expansion	277
9.4	Residual Imputation	279
9.5	Activity Analysis and Math Programming	281
9.6	Production Functions	289
9.7	Direct Statistical Regression	292
9.8	Nonmarket Valuation Techniques	297
9.9	Contingent Valuation	298
9.10	Hedonic Pricing	302
9.11	Travel Costs	303

	<i>Part II: Empirical Demand Findings for Three Sectors</i>	305
9.12	When Considering Prior Empirical Studies ...	305
9.13	Residential Water Demand	308
9.14	Industrial and Commercial Water Demand	310
9.15	Agricultural Water Demand	312
9.16	Summary	317
9.17	Exercises	318
	<i>Appendix 9.A: Joining Point Expansion and Residual Imputation Methods</i>	319
10	Supply Analysis	323
10.1	The Roles of Supply Information	324
10.2	The Primary Feature of Supply Empiricism: Single Suppliers	326
10.3	The Process of Processing Water	326
10.4	Conceptualizing Costs	328
10.5	Basic Methods of Supply Estimation	330
10.6	The Privatization Question	338
10.7	Summary	347
10.8	Exercises	348
11	Modeling with Demand and Supply	349
11.1	Moving from Theory to Empiricism	349
11.2	Features of More Advanced Models	350
11.3	A First Model	353
11.4	What Has Been Gained, Really?	355
11.5	A Brief Survey of Studies	357
11.6	A Second Model	360
11.7	Summary	365
11.8	Exercises	366
	<i>Appendix 11.A: Converting Functions for Water Type</i>	366
12	The Water Challenge	369
12.1	Economically Inspired Principles	370
12.2	Making a Difference	374
	Glossary	377
	References	383
	Index	399