

## **Contents**

### **Preface**

### **Acknowledgments**

### **Water Unit Conversions**

## **1 Introduction**

- 1.1 An Array of Decision Types
- 1.2 Amid the Noise
- 1.3 Supply Enhancement and Demand Management
- 1.4 Future Forces
- 1.5 Economics, Environment, and Equity
- 1.6 Organization and Conventions
- 1.7 Exercises

## **2 Optimal Allocation and Development**

- 2.1 Establishing Goals

### ***Part I: The Fundamental Economic Theory***

- 2.2 The Costs of Water Supply
- 2.3 Efficiency for a Single Water-Using Agent
- 2.4 Aggregation and Acquisition of Marginal Net Benefit Functions
- 2.5 (Aggregate) Economic Efficiency
- 2.6 The Universal Advisory Term: Opportunity Costs

### ***Part II: Further Adjustments for the Idiosyncrasies of Water***

- 2.7 Economic Efficiency in the Presence of Return Flows
- 2.8 Economic Efficiency with Nonrivalness
- 2.9 Neutral Economic Efficiency
- 2.10 Is Water Conservation an Additional Goal?
- 2.11 Summary
- 2.12 Exercises

### ***Appendix 2.A: Constrained Optimization Using the Lagrangian Method***

## **3 Efficiency in a Dynamic World**

### ***Part I: The Whys and Whats of Discounting***

- 3.1 Rates of Time Preference
- 3.2 Not Risk, Not Inflation

- 3.3 Market Revelations of the Discount Rate
- 3.4 The Underlying Theory
- 3.5 Time Values of Money
- 3.6 What is the Social Discount Rate?
- 3.7 Collecting the Advice on Social Discount Rate Selection

***Part II: Applied Discounting***

- 3.8 Dynamic Improvement and Dynamic Efficiency
- 3.9 Other Metrics
- 3.10 NPV Versus the Others
- 3.11 Is Dynamic Efficiency/Improvement Neutral or Aggregate?
- 3.12 Dynamic Efficiency: A Two-Period Graphical Exposition
- 3.13 Dynamic Efficiency: The Basic Calculus
- 3.14 A Fundamental Example: Drawing from a Reservoir
- 3.15 Extendable in Many Possible Directions
- 3.16 How Fast Should Ground Water Be Depleted?
- 3.17 Summary
- 3.18 Exercises

***Appendix 3A: Amortization and Capitalized Value***

***Appendix 3B: Advanced Methods of Dynamic Optimization***

**4 Risk and Reliability**

- 4.1 Risk, Uncertainty, and Ambiguity
- 4.2 Actions and Instruments
- 4.3 Interpreting Climate Change
- 4.4 Statistical Review
- 4.5 First Steps: Examples that Maximize Expected Net Benefits
- 4.6 Mean-Variance Decision Making
- 4.7 Expected Utility
- 4.8 Aggregation for Social Decisions Involving Water Risk
- 4.9 Quasi-Option Value, Real Options, Learning, and Optimal Postponement
- 4.10 Robust Decision Making
- 4.11 Summary
- 4.12 Exercises

*Appendix 4.A: Recursive Utility*

**5 Social Institutions**

*Part I: The Economics of Institutions*

- 5.1 What If You Had to Choose?
- 5.2 The Invisible Hand and the First Theorem of Welfare Economics
- 5.3 Market Failure
- 5.4 Consequently, ...
- 5.5 The Nature of Property
- 5.6 The Assignment of Property: Who Should Get It?

*Part II: Legal Institutions*

- 5.7 Water Law
- 5.8 Surface Water Law
- 5.9 Ground Water Law
- 5.10 Conjunctive Management
- 5.11 Treaties and Compacts
- 5.12 Summary
- 5.13 Exercises

**6 Policy Analysis**

- 6.1 Two Policy Analysis Forms: Theoretical and Empirical
- 6.2 Empirical Policy Analysis: The Ins and Outs of Compensation Tests
- 6.3 Consumer and Producer Surplus Measurement
- 6.4 Price-Rationing Policy
- 6.5 Quantity-Rationing Policy
- 6.6 Demand-Shifting Policy
- 6.7 Supply-Shifting Policy
- 6.8 Overview and Analysis of Other Policy Types
- 6.9 Incorporating  $\Delta NB$  into NPV for Dynamic Policies
- 6.10 Secondary Economic Effects
- 6.11 Incommensurables and Intangibles
- 6.12 Summary
- 6.13 Exercises

*Appendix 6.A: Input-Output Analysis*

*Appendix 6.B: Footprinting and Virtual Water*

**7 Cost-Benefit Analysis**

- 7.1 Policy Background
- 7.2 Required Economic Analyses in the U.S.
- 7.3 CBA is More Than NPV
- 7.4 A Spreadsheet in Need of Entries
- 7.5 Obtaining the Benefits and Costs
- 7.6 An Example Project Analysis: Applewhite Reservoir
- 7.7 Multipurpose Projects
- 7.8 Using Alternative Costs as a Benefit Measure
- 7.9 The Costs of Borrowed Funds
- 7.10 Cost Allocation
- 7.11 Summary
- 7.12 Exercises

*Appendix 7.A: The Conduct of Cost Allocation*

**8 Water Marketing**

- 8.1 The Instruments of Water Marketing
- 8.2 The Upside: Unlocking the Resource from Low-Valued Applications
- 8.3 Water Trade and Valuation Tools
- 8.4 Transaction Costs
- 8.5 A Typical Exchange Framework
- 8.6 The Downside: Guarding against Market Failures
- 8.7 Can the Downside Be Fixed?
- 8.8 The Worldwide Extent of Marketing
- 8.9 Leading Surface Water Markets
- 8.10 Ground Water Marketing
- 8.11 The Grounds for Area-of-Origin Protectionism
- 8.12 Summary
- 8.13 Exercises

**9 Water Pricing**

- 9.1 The Terms of Pricing
- 9.2 The Customary Objectives of Rate-Setting

- 9.3 The Equity of IBRs Question
- 9.4 Financial Practice
- 9.5 The Economic Theory of Pricing
- 9.6 Seasonal Volumetric Rates
- 9.7 The Influences of Risk
- 9.8 Wastewater Charges: A Complication
- 9.9 Summary
- 9.10 Exercises

## **10 Demand Analysis**

- 10.1 Demand is More Demanding than Value
- 10.2 The “Requirements” Approach

### ***Part I: Demand Methodology***

- 10.3 Point Expansion
- 10.4 Residual Imputation
- 10.5 Activity Analysis and Math Programming
- 10.6 Production Functions
- 10.7 Direct Statistical Regression
- 10.8 Nonmarket Valuation Techniques

### ***Part II: Empirical Demand Findings for Three Sectors***

- 10.9 When Considering Prior Empirical Studies ...
- 10.10 Residential Water Demand
- 10.11 Industrial and Commercial Water Demand
- 10.12 Agricultural Water Demand
- 10.13 Summary
- 10.14 Exercises

### ***Appendix 10.A: Joining Point Expansion and Residual Imputation***

## **11 Supply Analysis**

- 11.1 The Roles of Supply Information
- 11.2 The Primary Feature of Supply Empiricism: Single Suppliers
- 11.3 The Process of Processing Water
- 11.4 Conceptualizing Costs
- 11.5 Basic Methods of Supply Estimation

11.6 Economies of Scale and Scope

11.7 The Privatization Question

11.8 Summary

11.9 Exercises

## **12 Modeling with Demand and Supply**

12.1 From Theory to Empiricism

12.2 Features of More Advanced Models

12.3 Economics and Hydroeconomics

12.4 A First Model

12.5 What Has Been Gained, Really?

12.6 The Work of Prior Studies

12.7 A Second Model

12.8 Summary

12.9 Exercises

### *Appendix 12.A: Converting Functions for Water Type*

## **13 The Water Challenge**

13.1 Economically Inspired Principles

13.2 Making a Difference

## **Glossary**

## **References**

## **Index**