Q. Explain the main principles in using market based instrument to implement environmental policy?

Answer: The main principles used in market based instruments to implement environmental policy are explained below:

1. **Environmental effectiveness**: The market based instruments should cause changes in consumption or production pattern which will lead to reduce environmental burden. If an instrument is unable to do so, it should be considered whether to follow it or abandon the instrument.
2. **Economic efficiency**: One of the advantages of MBIs is their effectiveness on every unit of pollution. Taxes encourage both static and dynamic efficiency gains
3. **Equity or income distribution**: Policy makers need to consider the impact of such taxes also on sensitive groups such as low-income households. Lower tax rates or exemptions are sometimes put into place to limit impacts on such groups.
4. **Competitiveness**: The aim of economic instruments (especially taxes) is to make activities with higher environmental impact less profitable in an economic sense. The competitiveness issue rises more sharply at a sector or national level, where taxes or tradable allowance schemes imposed may have a negative impact on international competitiveness.
5. **Monitoring and enforcement**: Effective market based instruments require a good monitoring and enforcement mechanisms to ensure compliance and prevent unnecessary consequences.