

Diagram of $f(Z)$

Let Z denote the amount of consumer goods that a worker would forgo to have a clean job

If $Z < \Delta W$ then the worker goes to the dirty job

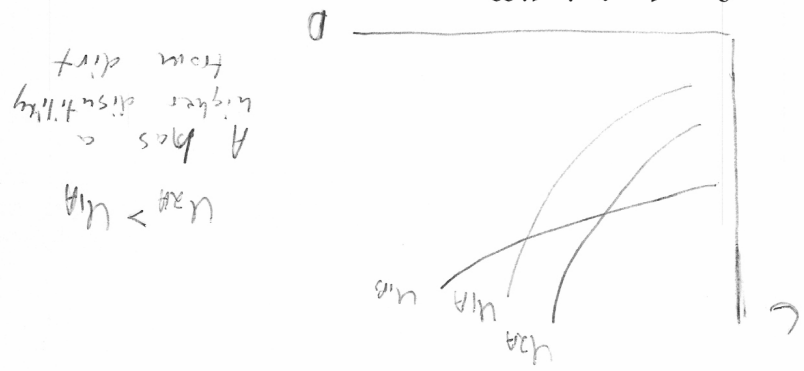
If $Z > \Delta W$ the worker goes to the clean job

At $Z = \Delta W$ the worker is indifferent

Suppose $\beta = 0$ dirty ~~clean~~

A has a high disutility of from dirtiness
B has a lower disutility

Diagram of worker's indifference curve



$U^A > U^B$

A has a higher disutility from dirt

Matching of workers to firms – In equilibrium

Firms with high clean-up costs will hire workers with low disutility from dirtiness and firms with low clean-up costs will hire workers with high disutility

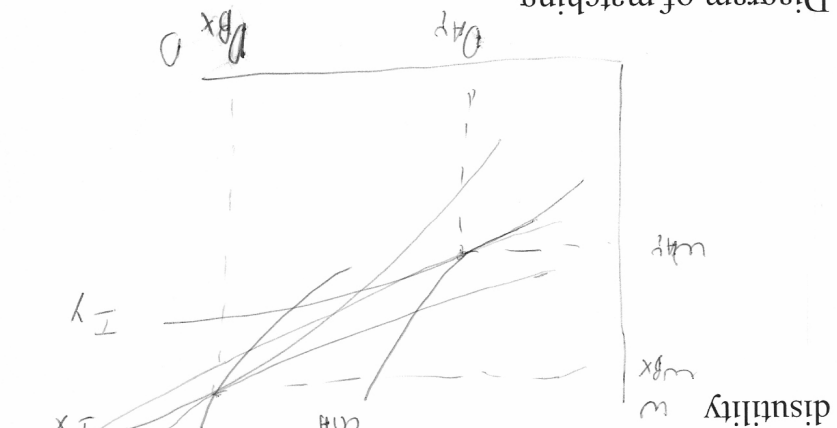
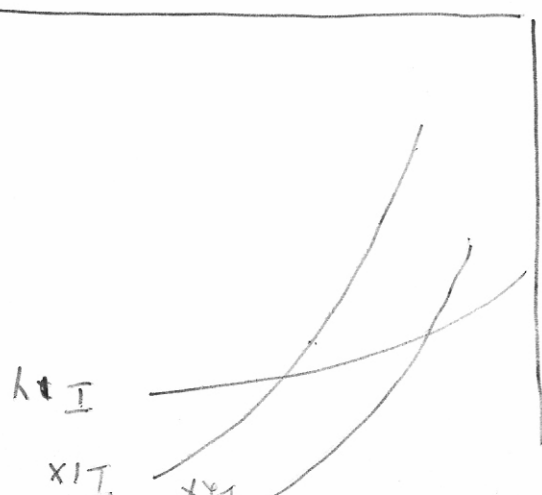


Diagram of matching

Δw is the market price of dirtiness

$$\Delta w = w_H^a - w_L^a$$

Diagram of the firm's isoprofit curve



$\pi_{1x} > \pi_{2x}$

Firm X has a high cost of clean-up
 Firm Y has a low cost of clean-up

at high levels
 of dirt Y can
 outbid X for workers
 at low levels
 the reverse
 holds

If $B > \Delta W$ then the firm will use the dirty

technology
 If $B < \Delta W$ the firm will use the clean

technology
 If $B = \Delta W$ then the firm will be indifferent

