TABLE OF CONTENTS

Page

ACKNOWLEDGMENTS v

ABSTRACT xi

LIST OF TABLES xvii

LIST OF FIGURES xix

CHAPTER

1. INTRODUCTION 1

    1.1 Groundwater as a Vital Natural Resource 2
    1.2 Statement of Research Problem 4
    1.3 Research Objectives 7

2. LITERATURE REVIEW: PART 1 - AN OVERVIEW OF GROUNDWATER QUALITY ISSUES 8

    2.1 Introduction-What is Groundwater? 8
    2.2 How Does Groundwater Contamination Occur? 11
    2.3 Groundwater Protection Efforts 12
    2.4 The Sources, Extent, and Dangers of Groundwater Contamination 17

        2.4.1 Residential Sources of Contamination 19
        2.4.2 Agricultural Sources of Contamination 21
        2.4.3 Industrial Sources of Contamination 22
        2.4.4 Natural Sources of Contamination 22
        2.4.5 Health Effects of Groundwater Contamination 23

    2.5 The Case of MTBE: Is the Cure Worse than the Disease? 25

3. LITERATURE REVIEW: PART 2 - VALUATION METHODOLOGY 56

    3.1 The Valuation Methodology Debate 57
    3.2 Indirect or Revealed Preference Methods 59

        3.2.1 The Hedonic Pricing Technique 59
        3.2.2 Travel Cost Analysis 60
        3.2.3 Averting Cost Analysis 60
        3.2.4 The Importance of Non-Use Value: Why Revealed Preference Methods Sometimes Fall Short 61

3.3 Direct or Stated Preference Methods 62

3.3.1 The Contingent Valuation Method 63
3.3.2 Conjoint Analysis 101

3.4 The Role of Respondent Uncertainty in Stated Preference Studies 104
3.5 Willingness-to-Pay Estimates for Groundwater Quality 113

3.5.1 Averting Cost Studies 113
3.5.2 Contingent Valuation Studies 115
3.5.3 Conjoint Analysis Studies 117

3.6 Summary 118

4. LITERATURE REVIEW: PART 3 - AN OVERVIEW OF DISCOUNTING ISSUES 121

4.1 A Historical Overview of the Discounting Debate 122
4.2 The Classical Model of Discounting 127
4.3 Choice of Discount Rate 129

4.3.1 The Marginal Social Rate of Time Preference 130
4.3.2 The Marginal Social Opportunity Cost of Capital 132
4.3.3 The Weighted Average Method 134
4.3.4 The Shadow Price of Capital 135
4.3.5 Four Methods, No Easy Answers 136

4.4 The Discounting Debate Re-Emerges 138
4.5 Challenges to the Classical Model of Discounting 153

4.5.1 Kahneman and Tversky's Prospect Theory 153
4.5.2 Loewenstein's Theory of Intertemporal Choice 153
4.5.3 Kahneman and Thaler: Intertemporal Preference for Sequences 155
4.5.4 Loewenstein and Prelec's Four "Anomalies" 156
4.5.5 Empirical Evidence of Non-Constant Discounting 158
4.5.6 Empirical Evidence of Negative Rates of Time Preference 159

4.6 Health as a Unique Commodity 161

4.6.1 Should Future Health Benefits Be Discounted? 161
4.6.2 Is the Constant-Rate Discounted Utility Model Appropriate for Health-Related Outcomes? 164

4.7 Alternatives to the Classical Discounting Model....168
4.8 Relationships between Rate of Time Preference and Individual Characteristics....171
4.9 The Individual versus the Citizen: Which role do we play when we attempt to place a value on public goods? 173
4.10 Summary....176

5. LITERATURE REVIEW: PART 4 – VALUING HEALTH AND SAFETY RISKS....180

5.1 Methodology for the Valuation of Health Risks....181

5.1.1 The Cost of Illness Approach....182
5.1.2 Willingness-to-Pay Approaches....183
5.1.3 QALY Analysis....190

5.2 Special Considerations: how do we think about risk?....196

5.2.1 Uncertainty in Risk Measurement....196
5.2.2 The Role of Knowledge and Information....197
5.2.3 The Trouble with Valuing Small Changes in Risk....198
5.2.4 Communicating Risk....200
5.2.5 Are WTP estimates adequately sensitive to the size of the risk reduction?....207

5.3 Summary....214

6. ECONOMIC THEORY....219

6.1 The Individual's Problem....222
6.2 Estimating Willingness-to-Pay Using Discrete Response CVM Data....223
6.3 Estimating Willingness-to-Pay Using Conjoint Ratings Data....228

6.3.1 The Conjoint Binary Response Model....234
6.3.2 The Conjoint Binary Response Ratings Difference Model....235

6.4 Summary....235

7. SURVEY DESIGN....238

7.1 Survey Composition and Mailing List....238
7.2 Survey Development....239
7.3 Survey Description....242

8. EMPIRICAL RESULTS....248

8.1 Survey Response Rates....248
8.2 Descriptive Statistics....250

8.2.1 Socioeconomic Characteristics....250
8.2.2 Attitudes towards Groundwater Quality Issues....253
8.2.3 Attitudes towards Risk-Money Trade-offs....257
8.2.4 Beliefs about the Role of Technology....259

8.3 Preferences for Present- Versus Future-Oriented General Life-Saving Programs....261

8.3.1 Responses to the Valuation of Two General Life-Saving Programs....261
8.3.2 Implicit Discount Rates for General Life-Saving Programs....266
8.3.3 Econometric Models of Discounting Behavior....271

8.4 Valuation of Groundwater Protection Programs....277

8.4.1 Model Specification....280
8.4.2 Predicting the Probability of Undertaking a Groundwater Protection Program....294
8.4.3 Measuring Goodness-of-Fit of the Econometric Models....296
8.4.4 Estimating Median Willingness-to-Pay....298
8.4.5 Implicit Discount Rates for Groundwater Protection....305
8.4.6 Model Comparisons and Summary....309

9. CONCLUSIONS....357

9.1 Implications and Relevance of the Study....357
9.2 Directions for Future Research....361

APPENDICES

A. TRANSCRIPTS OF PRE-TEST SESSIONS....366
B. GROUNDWATER PROTECTION PROGRAM VALUATION SECTIONS OF THE SURVEY....419
C. SECTIONS OF THE SURVEY COMMON TO ALL VERSIONS....426
D. SUPPLEMENTAL SURVEY MATERIALS....442

BIBLIOGRAPHY....446

LIST OF TABLES

Table Page

2.1 National Primary Drinking Water Regulations 38

2.2 Phase I and Phase II Contaminants 53

2.3 Drinking Water Contaminant Candidate List-March 1998 54

8.1 Western Massachusetts Towns Included in the Survey Sample 325

8.2 Descriptive Statistics: Respondent Socioeconomic Characteristics 326

8.3 Descriptive Statistics for the General Population in Western Massachusetts 327

8.4 Descriptive Statistics for Groundwater Quality Issues 328

8.5 Testing for Differences in the Mean Characteristics of Respondents: differences between those who stated they were unwilling to make trade-offs between health risks and money, and the rest of the sample. 329

8.6 Testing for Differences in the Mean Characteristics of Respondents: differences between those who stated they were "pro-technology" and the rest of the sample. 330

8.7 Respondent Preferences for General Life-Saving Programs 331

8.8 Testing for Differences in the Mean Characteristics: differences between those respondents who indicated their choice between the two life-saving programs and those that did not. 332

8.9 Testing for Differences in the Mean Characteristics of Respondents: differences between respondents that indicated their indifference point between life-saving programs and those that did not. 333

8.10 Testing for Differences in the Mean Characteristics of Respondents: differences between respondents that stated they would never choose the future-oriented life-saving program and the rest of the sample 334

8.11 Mean Implicit Discount Rates for Life-Saving Programs 335

8.12 Summary Statistics for Implicit Discount Rates for Life-Saving Programs 336

8.13 Percentages of Respondents with Zero and Negative Mean Discount Rates for Life-Saving Programs 337

8.14 Respondent Comments on the Role of Technology 338

8.15 Correlations between Respondent Characteristics.....339

8.16 Estimation of the Probability of Unwillingness to Trade Present and Future Lives 340

8.17 Estimating a Linear Discount Rate Function 341

8.18 Predicted Values of the Discount Rate for Life-Saving Programs Using the Estimated Linear Discount Rate Function 341

8.19 Descriptive Statistics for the Dependent Variables 342

8.20 Model Specification.....343

8.21 The Traditional Dichotomous Choice CVM Model.....344

8.22 The Modified Dichotomous Choice CVM Model.....345

8.23 The Conjoint Binary Response Ratings Model.....346

8.24 The Conjoint Binary Response Ratings Difference Model.....347

8.25 Testing the Null Hypothesis that the Coefficient on the Present Risk Reduction and the Coefficient on the Future Risk Reduction are Equal 348

8.26 Summary Statistics for the "Average" Groundwater Protection Program.....348

8.27 Estimated Probability of Undertaking the Average Level of Groundwater Protection 349

8.28 Estimated Probability of Undertaking Specific Groundwater Programs.....350

8.29 Results of the Hosmer and Lemeshow Goodness-of-Fit Tests.....352

8.30 Estimates of Median WTP for the Average Groundwater Protection Program 354

8.31 Median WTP for Private versus Public Groundwater Protection.....355

8.32 Testing for Differences in the Mean Characteristics of Respondents: certain respondents versus uncertain respondents.....356

LIST OF FIGURES

Figure Page

2.1 The Hydrologic Cycle....31

2.2 The Unsaturated and Saturated Zones....32

2.3 The Capillary Fringe....33

2.4 The Recharge Process....34

2.5 Unconfined and Confined Aquifers (A)....35

2.6 Unconfined and Confined Aquifers (B)....36

2.7 Major Sources of Groundwater Contamination....37

4.1 Trade-offs between Present and Future Consumption....178

4.2 Exponential versus Hyperbolic Discounting....179

5.1 Relationship Between Actual and Perceived Probabilities....216

5.2 Risk Ladder to Communicate Risk....217

5.3 Pie Charts to Communicate Risks....218

6.1 Benefit Measures....237

8.1 Survey Question Modified from Cropper et al.'s (1991) Study....324

B.1 Versions A and AA – Conjoint Analysis / Traditional DC CVM / Modified DC CVM....419

B.2 Versions B and BB – Conjoint Analysis and Modified DC CVM....422

B.3 Versions C and CC – Traditional DC CVM and Modified DC CVM....424

C.1 Survey Booklet Front Cover....426

C.2 Survey Questions about Household Characteristics and Groundwater Quality Issues....427

C.3 Preferences for Present Versus Future-Oriented General Life-Saving Programs …….. 433

C.4 Information Section for the Valuation of Groundwater Protection Programs.....435

C.5 Questions about Respondents' Motivations for Choosing Certain Programs 436

C.6 Survey Questions about Respondents' Socioeconomic Characteristics 439

C.7 Survey Booklet Back Cover 441

D.1 Text of the Newspaper Ad to Recruit Subjects for Pre-Testing.....442

D.2 Postcard that Informs Respondents They Will Be Receiving a Survey Shortly ……...443

D.3 Cover Letter that Accompanied Survey.....444

D.4 Reminder Postcard Sent to Respondents 445