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INEQUALITY, INFORMATION FAILURES, AND AIR POLLUTION

Catherine Hausman
Samuel Stolper

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ABSTRACT

Research spanning several disciplines has repeatedly documented disproportionate pollution exposure in low-income communities and communities of color. Among the various proposed causes of this pattern, those that have received the most attention are income inequality, discrimination, and firm costs (of inputs and regulatory compliance). We argue that an additional channel – information – is likely to play an important role in generating disparities in pollution exposure. We present multiple reasons for a tendency to underestimate pollution burdens. Using a model of housing choice, we then derive conditions under which “hidden” pollution leads to an inequality – even when all households face the same lack of information. This inequality arises when households sort according to known pollution and other disamenities, which we show are positively correlated with hidden pollution. To help bridge the gap between environmental justice and economics, we discuss the relationship between hidden information and three different distributional measures: exposure to pollution; exposure to hidden pollution; and welfare loss due to hidden pollution.

Catherine Hausman
Gerald R. Ford School of Public Policy
University of Michigan
735 South State Street
Ann Arbor, MI 48109
and NBER
chausman@umich.edu

Samuel Stolper
University of Michigan
School for Environment and Sustainability
440 Church Street
Dana 3006
Ann Arbor, MI 48109
sstolper@umich.edu

Pollution exposure has repeatedly been found to be disproportionately experienced in low-income communities and communities of color. This observation is the foundation of the environmental justice (EJ) movement and a frequent subject of study in several social science and medical fields, including sociology, demography, geography, urban planning, public health, environmental studies, and economics.¹ Research has documented a persistent statistical correlation between race, ethnicity, and/or income on the one hand and the siting of hazardous waste facilities on the other.² Beyond just the siting of polluting facilities, ambient air quality itself has been linked to socioeconomic and demographic indicators.³

Understanding the causes of disproportionate exposure in any given context is vital to the design of policy to address it; different causes suggest different solutions. A few potential causal mechanisms receive the lion’s share of attention in the academic literature. First, income inequality may cause lower-income people to “select” residential areas where environmental quality is lower. This willingness-to-pay based story (commonly referred to as “coming to the nuisance”) “continues to receive the most attention from economists interested in environmental justice questions” (Banzhaf, 2011). Second, direct discrimination on the part of firms or government, by race or other demographic factor, could produce inequities in pollution exposure – indeed, some use the term “environmental racism” interchangeably with environmental injustice (Mohai, Pellow and Roberts, 2009). Third, firms could choose to locate in places where their costs (including labor, land, transportation, and regulatory compliance) are lowest (Wolverton, 2009), which may similarly be where the relative lower income and/or minorities are more likely to live. This mechanism extends to encompass the case in which firms follow a “path of least resistance,” targeting communities with less political power on the grounds of cost minimization (Hamilton, 1995).

In this paper, we argue that existing research on disproportionate pollution exposure underweights the importance of another factor: information. There are many obstacles to accurate information about environmental quality and its benefits: companies and governments may have incentives to hide pollution, there are only so many pollution monitors, and our scientific understanding of health impacts continues to evolve. Missing and inaccurate information has the potential to affect housing choices, siting decisions of polluting enterprises, and government policy (like permitting, inspection, and enforcement) alike. We focus here on housing choice: if households sort into homes based on information about

¹For examples from each of these disciplines, see Bullard (1983); Taylor (2000); Holifield (2001); Pastor Jr., Sadd and Hipp (2001); Agyeman, Bullard and Evans (2002); Brulle and Pellow (2018); Mohai and Saha (2006); Mohai, Pellow and Roberts (2009); Mohai et al. (2009); Banzhaf (2012); Mohai and Saha (2015); Banzhaf, Ma and Timmins (2019*a,b*).

²Seminal papers include United States General Accounting Office (1983); United Church of Christ (1987); Bullard et al. (2007).

³See, e.g., Kriesel, Centner and Keeler (1996); Depro and Timmins (2012); Tessum et al. (2019).

environmental amenities – or even just other attributes that are correlated with them – then missing or wrong information should be expected to affect the empirical distribution of pollution exposure.

Though the economics literature has documented widespread cases of limited information regarding environmental quality,⁴ there has been far less focus placed on the distributional and justice-related implications of this market failure. We provide exactly that focus: we investigate the relationship between environmental quality and income in a model of residential location choice that nests various forms of limited or missing information. The most closely related research is by Ma (2019), who shows that failing to model limited information biases willingness to pay estimates for pollution clean-up, and that in her application, minority and low-income homeowners place a high value on information about pollution. Also related is work by Bakkensen and Ma (2020), who model heterogeneity in preferences for flood risk in a setting of limited information and argue that improved information provision would be progressive.⁵ In contrast to these studies, we investigate how environmental inequities can arise from *uniform* limitations to perfect information – that is, when all individuals are equally wrong or uninformed – and focus on the example of air pollution and housing choice.

We begin by summarizing some of the many potential reasons why information about environmental quality could be limited or missing, as well as reasons to believe that households underestimate, rather than overestimate, air pollution and its damages. For instance, scientists frequently discover new biological pathways for adverse health impacts of pollutants. Companies sometimes hide emissions. Households are aware of some, but not all, known health impacts of pollutants, and they can experience psychological biases when understanding pollution impacts.

We then develop a model of the housing decision near a point source of pollution when air quality is not precisely known. Our aim in working with this model is to provide intuition for how information failures affect both physical pollution exposure and welfare across households, with a particular focus on how the impacts differ across income levels. We assume particular functional forms for utility and the pollution dissipation process, to show an intuitive comparative statics analysis with closed-form expressions. While the model focuses on the relationship between information failures and income-based sorting, we later discuss how the former may interact with racism and other drivers of disproportionate exposure.

⁴Among the many examples are Foster and Just (1989); Chivers and Flores (2002); Leggett (2002); McCluskey and Rauser (2003a); Pope (2008a,b); Mastro Monaco (2015); Moulton, Sanders and Wentland (2018); Von Graevenitz, Romer and Rohlf (2018); Bakkensen, Ding and Ma (2019); Barwick et al. (2019); Bishop et al. (2020).

⁵Another recent paper is also somewhat related: Bakkensen and Barrage (2018) model heterogeneity in beliefs about flood risk, in order to study the dynamic of the relationship between sea level rise and coastal home prices.

Under a typical dispersion process for an air pollutant, and assuming people are underinformed about air pollution, we find that: (1) low-income households are exposed to more pollution; (2) low-income households are exposed to more *hidden* pollution; and (3) low-income households experience greater deadweight loss from a lack of information. While the first relationship is well-known, the latter two results are novel. It is noteworthy that, in our model, even *uniformly* limited information can produce disproportionate pollution exposure and welfare loss for low-income households. This occurs because households sort according to known pollution, which is positively correlated with hidden pollution due to the way pollution dissipates.

We generalize the model by relaxing assumptions on the functional forms of utility and the price of air quality. In equilibrium, households sort into different air quality levels based on their willingness to pay for positively correlated amenities. We replicate the first two results from our more parametric model: low-income households are exposed to greater pollution exposure and also greater *hidden* pollution exposure. Our third result does not always generalize, although both the physical pollution dissipation process and declining marginal utility will work towards the third result holding.

We then discuss the implications and applications of our modeling exercises for empirical research and policymaking. We begin by highlighting conceptual implications, including the importance of accounting for imperfect information in estimation of willingness to pay. We then describe existing empirical work as well as offer descriptive empirical evidence of our own, that both corroborates our model findings and underscores the challenges of estimating the value of information. Next, we discuss policy implications, connecting our work to the current Biden Administration environmental policy agenda and noting the possibility that uniform information provision is distributionally progressive. Lastly, we show how other contexts may also be characterized by a uniform lack of information with disproportionate burdens on low-income communities and people of color.

Our findings build on a long literature in environmental justice (in economics, see, for instance, reviews by Banzhaf 2011, Banzhaf 2012, Hsiang, Oliva and Walker 2019, Banzhaf, Ma and Timmins 2019a, and Banzhaf, Ma and Timmins 2019b). Until recently, household sorting has been the primary mechanism for environmental disparities analyzed in the economics literature (Banzhaf and Walsh, 2008; Gamper-Rabindran and Timmins, 2011; Depro, Timmins and O’Neil, 2015). However, the broader, multi-disciplinary literature highlights several other mechanisms, and empirical research in economics has begun supplying evidence of some of these. Lee (2017) examines the possibility that differential moving costs affect households’ ability to “flee the nuisance.” Timmins and Vissing (2017) argue that linguistic isolation affects bargaining power in mineral lease negotiations. Shertzer, Twinam and Walsh

(2016) show historical evidence that non-White neighborhoods in Chicago were more likely to be zoned for industrial uses. Christensen and Timmins (2018) examine discrimination in the real estate market that steers minorities towards more polluted areas. We add to this literature by providing theoretical and empirical evidence that implies unequal pollution and welfare loss from limited information.

Though our focus in this paper is on air pollution and housing choice, our primary finding emerges generically from the relationship between salient and hidden amenities. As such, we believe hidden disamenities have the potential to create income-based or racial disparities in other contexts where information is likely limited, such as climate change mitigation (Heal and Park, 2016), groundwater source selection (Kremer et al., 2011), and demand for environmental quality in developing countries more generally (Greenstone and Jack, 2015). Our findings also contribute to an active, cross-field literature on the economics of information (Hastings and Weinstein, 2008; Ehrlich, 2014; Kurlat and Stroebel, 2015; Allcott, Lockwood and Taubinsky, 2019). That a disparity can be produced simply by information that is uniformly limited across individuals stands out in contrast with existing work that focuses on *heterogeneity* in information and its costs.⁶

In light of our findings, we argue that estimation of marginal willingness to pay for environmental quality (MWTP) – a primary concern in environmental and public economics – must account for informational failures. Much of the related literature has used an assumption of full information in analysis of revealed preferences. When limited information is mentioned, it is generally in the context of noting that estimated willingness to pay reflects *beliefs* about environmental quality.⁷ We show that our motivating empirical examples can lead to biased estimates of willingness to pay, and that the bias can go in either direction. As such, we argue for the explicit incorporation of information about beliefs, along the lines of what is proposed by Bishop et al. (2020) and Ma (2019).

1 Background

The choice of where to live has substantial consequences for the level of environmental quality a household experiences. At the same time, of course, the housing choice entails decisions about many other characteristics of homes and neighborhoods as well. In making a decision,

⁶One could imagine modeling access to information as heterogeneous, as has been done in other contexts. Importantly, though, environmental justice communities have in many cases been adept at sourcing information themselves (O’Rourke and Macey, 2003). We discuss extensions to our treatment of information in Section 5.

⁷One exception is Kask and Maani (1992), who model the hedonic price as a function of information level and uncertainty.

the potential home buyer must trade off these many characteristics (number of bedrooms, the presence and size of a backyard, quality of the school district, neighborhood air quality, etc.), while considering her household budget and the cost of the house. To the extent that information about environmental quality and its impacts is hidden or missing, households may fail to choose their privately optimal home.

There are good reasons to believe that individuals are not fully informed about local air quality. Pollution is not always visible, nor does it always produce an odor. Moreover, the government’s air quality monitoring network is sparse. Economists studying the consequences of this sparseness have primarily focused on the measurement of fine particulate matter (PM_{2.5}) (Fowlie, Rubin and Walker, 2019; Sullivan and Krupnick, 2018; Zou, 2018), but Environmental Protection Agency (EPA) monitoring is even sparser for other pollutants. In 2016, the EPA reported monitors in around 140 counties for benzene and toluene, 260 for nitrogen dioxide (NO₂), 320 for sulfur dioxide (SO₂), 610 for PM_{2.5}, and 790 for ozone – out of a total of more than 3,000 counties.⁸

In many places, the public must therefore *infer* air quality based on what might be observable to them: air quality at distant monitors, or a proxy such as the existence of a potentially polluting facility nearby. The use of distance as a proxy has empirical support from research on how people “perceive” pollution (Bickerstaff and Walker, 2001). A household might be aware that concentrations of pollutants tend to be higher close to highways (Currie and Walker, 2011; Herrnstadt et al., 2018), airports (Schlenker and Walker, 2016), industrial facilities (Currie et al., 2015), and power plants (Masseti et al., 2017).⁹ In the first part of our theoretical exercise, we will assume that households cannot observe true air quality and instead use distance to a point source as a proxy.

In principle, information limitations could cause a household to underestimate *or* overestimate pollution exposure and its health effects. We suspect that cases of underestimation are widespread in practice, and we offer several pieces of evidence in support of this. First, consider the way science has generally progressed: scientists frequently discover new biological pathways for health damages. In the United States, industries can typically use new chemicals until damages have been documented by the EPA – which suggests that, *ex post*, the US tends to discover that exposure was worse than thought.

In fact, environmental standards have for the most part become stricter over time, as these new biological pathways for damages are discovered. In the Appendix (Figure A1), we show historical changes in EPA standards and World Health Organization (WHO) guidelines

⁸These numbers come from the EPA monitoring data that we introduce and use in Section A4.2.

⁹Some pollutants are transported across long distance; for instance, concerns about cross-state transport of air pollution led to regulations on power plants. Even so, power plants are also responsible for nearby deposition of toxics such as chromium, mercury, and nickel (Masseti et al., 2017).

for various indoor and outdoor air pollutants (limited to pollutants for which the standards or guidelines have changed). In almost all cases, the EPA and WHO have revised their air quality guidelines downward, reflecting new information about the toxicity of pollutants. As an example, the EPA standard for ambient lead concentrations changed in 2008, from $1.5 \mu\text{g}/\text{m}^3$ to $0.15 \mu\text{g}/\text{m}^3$, motivated by “important new information coming from epidemiological, toxicological, controlled human exposure, and dosimetric studies” (EPA, 2008, p. 66970).

Given that EPA guidelines and measurements are often the best source of information relevant to the evaluation (and valuation) of environmental quality, it seems likely that households have historically sorted into homes based on the EPA’s underestimated health effects of pollution. To the extent that households have their own knowledge of the science on health effects, however, they are still unlikely to know about all biological pathways. For instance, even when households are aware of the negative respiratory impacts of air pollution, they are frequently not aware of negative cardiovascular impacts (Nowka et al., 2011; Xu, Chi and Zhu, 2017). In addition, consider that some cognitive impacts have only recently been documented by academic researchers (e.g., Bishop, Ketcham and Kuminoff, 2018); it thus seems plausible that the public is not yet fully aware of cognitive impacts.

Another reason individuals may underestimate pollution damages is that they may understand the hazards stemming from *some* but not *all* pollutants. For instance, they may associate refineries with sulfates (the foul-smelling air pollutants that are released by refineries) but not with benzene, toluene, and xylenes (chemicals emitted by the refining industry with developmental and/or carcinogenic effects). A 2019 report on California refineries identified 188 chemicals emitted, with varying degrees of toxicity and varying levels of odor (Riveles and Nagai, 2019). It seems likely that individuals are not fully aware of all of these chemicals and their health impacts. Their decisions will incorporate only the impacts of those disamenities of which they are aware. Research suggests that awareness of air pollution depends in large part on whether the pollution is detectable either visually or by smell (Bickerstaff and Walker, 2001; Hunter, Bickerstaff and Davies, 2004; Xu, Chi and Zhu, 2017), so that invisible and odorless pollution may go unnoticed by the public.

Even for individuals who actively seek out information on chemicals, rather than simply relying on visual or other clues, underestimation of exposure may occur. It is perhaps instructive that the count of chemicals that facilities are required to report has grown substantially over time. Appendix Figure A2 plots over time the number of chemicals listed in the EPA’s Toxics Release Inventory (TRI), which requires firms to disclose their use and emissions of listed chemicals; the time trend is dominated by periodic, large expansions to

the list.¹⁰ Before a new chemical is added to the list, it is plausible that either (1) households are unaware of the existence of that chemical at a point source, or (2) they believe the chemical is not harmful to human health. Indeed, Moulton, Sanders and Wentland (2018) argue that the addition of new industries to the TRI in 2000 changed home prices near the most toxic plants, which the authors attribute to a change in beliefs about pollution levels.

Additionally, firms may have incentives to deceive regulators and underestimate their emissions (Duflo et al., 2013). While some emissions are monitored (e.g., SO₂ emissions from power plants), the EPA relies on self-reporting for other types of emissions (e.g., toxic emissions from industrial facilities). Moreover, companies have occasionally been prosecuted for tampering with monitoring equipment.¹¹ At the same time, regulators may have incentives to obscure true pollution levels through strategic monitoring (Grainger, Schreiber and Chang, 2018; Zou, 2018) – for instance, in order to avoid being in non-attainment with federal standards.

Lastly, behavioral bias may well contribute to underestimation of pollution and its damages. According to the literature on pollution perceptions, when individuals *do* report knowledge that air pollution in general is damaging, they may still believe that their own neighborhood is not heavily polluted (Bickerstaff and Walker, 2001; Brody, Peck and Highfield, 2004; Xu, Chi and Zhu, 2017). This has been termed a “halo effect” or a “halo of optimism.”

Estimation of pollution levels and associated health damages could, of course, go in the opposite direction, and psychologists have pointed to instances where the public overperceives the level of risk relative to academic scientists. For instance, researchers have argued that the public experiences “dread” of the risk of a nuclear power plant accident beyond what is implied by actuarial risk (Abdulla et al., 2019). As another example, cleaned-up hazardous waste sites may continue to be “stigmatized” (McCluskey and Rausser, 2003*b*). There are also cases where some members of the public overestimate risk and others underestimate it, such as with lifetime radon exposure (Warner, Mendez and Courant, 1996). We do not rule out upward bias in perceived pollution, but we nonetheless focus on downward bias in the remainder of our analysis, since we believe that direction of bias to be more widespread.

¹⁰Note that the Toxics Release Inventory was created as part of the 1986 Emergency Planning and Community Right-to-Know Act and, as such, was originally intended to increase the information about pollution available to communities and decision-makers.

¹¹Consider, for instance, a 2017 case against Berkshire Power Company and Power Plant Management Services, Inc. (<https://cfpub.epa.gov/compliance/criminal/prosecution>), or the case against Volkswagen (<https://www.epa.gov/vw/learn-about-volkswagen-violations>).

2 A Stylized Model of Location Choice

We begin with a simplified model of housing demand under limited information, drawing on our previous discussion of pollution perception and misinformation. The model is fairly standard in that it depicts a household optimizing over the choice of air quality and a numeraire representing all other goods, given a budget constraint. We alter this setup to capture the information limitation in which we are interested: the household cannot observe air quality directly and instead uses distance to a point source as a proxy.¹² We derive demand for distance, i.e., air quality, under full information, and then we compare it with what happens when the household underestimates the added utility gained by moving further from the pollution source. Finally, we discuss the assumptions embedded in this modeling exercise.

In this section, we assume a parameterization of the utility function, a parameterization of the physical pollution dissipation process, and a simplified housing price function. After working through this more specific model, we present a more generalized model in the next section that relaxes the functional form assumptions on demand, pollution dissipation, and housing prices.

Suppose a consumer gets utility from two goods:

- q healthiness, a function of air quality. However, q is not directly observable by the consumer (nor by other market participants). Instead, the consumer has a belief about the level of q in a location, based on what is observable: distance x to the source of pollution.¹³ Thus, q is a function of x and exogenous parameters like the amount of pollution emitted at the point source.
- y all other goods, both housing (e.g., square footage) and non-housing (e.g., food).¹⁴

Here we have collapsed the impact of the point source on pollution and the impact of pollution on health into a single function, as the distinction is not important for our purposes. As such, we refer to q throughout as “healthiness” and “air quality” interchangeably.

¹²Because we model housing demand as demand for distance, our model shares many features with a monocentric city model in an Alonso-Muth-Mills framework. The primary differences are that (1) we are interested in distance to a polluter (such that distance brings positive utility) rather than to a central business district (such that distance brings commuting costs); and (2) we focus on income heterogeneity, whereas the simplest monocentric city models begin with homogenous income. Income sorting in monocentric city models is discussed in Arnott (2011) and Duranton and Puga (2015) and citations therein.

¹³We consider proxies other than distance in the more generalized model that follows.

¹⁴Note that here the numeraire embeds all housing characteristics other than pollution exposure – so that we are implicitly assuming that other characteristics are not correlated with distance to the point source. In the more generalized model that follows, we allow for additional characteristics that are correlated with distance and therefore pollution exposure.

We initially assume Cobb-Douglas preferences: utility $U(q, y) = q^\gamma y^{1-\gamma}$; we consider alternative preferences in Section 3. It is important to note that, even though the consumer infers rather than observes the level of q at the time she makes her decision, the true value of q is what ultimately impacts her utility. For instance, she may immediately experience health impacts such as asthma, without knowing that the asthma was caused by q . Or she may experience a delayed health impact such as cancer. We are not the first to allow for an input into the utility function that is unobservable to the agent (Foster and Just, 1989; Leggett, 2002; Just, Hueth and Schmitz, 2004).¹⁵

To model the relationship between air quality q and distance x , we use a linear approximation of exponential decay. A large literature spanning environmental sciences (Hu et al., 1994; Rooarda-Knape et al., 1999; Zhu et al., 2002; Karner, Eisinger and Niemeier, 2010; Apte et al., 2017) and economics (Currie et al., 2015) suggests that pollution tends to decay exponentially with distance to its source. Numerous airborne pollutants have been evaluated, including criteria pollutants such as PM and NO₂ and toxic pollutants such as benzene. A similar relationship has been found for health outcomes such as low birthweight and premature birth (Currie and Walker, 2011). In our context, linearizing exponential decay eases calculations while retaining the key properties (i.e., first and second derivatives) of an exponential decay model. We describe exponential decay in more detail in Appendix Section A2.

We assume that healthiness from air quality improves with distance according to the following equation:

$$q = \alpha_0 - \alpha_1\beta + \beta x \tag{1}$$

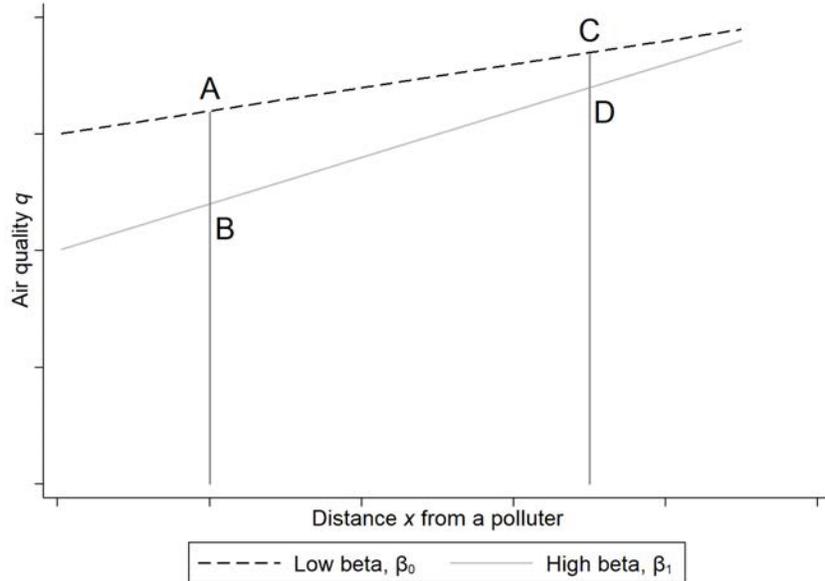
One can think of β as the amount of pollution emitted by a point source, or as the impact that a given level of pollution has on individual’s health. A larger β parameter lowers air quality ($\frac{\partial q}{\partial \beta} < 0$) while increasing the importance of distance for air quality ($\frac{\partial q}{\partial x} > 0$). In addition, the marginal effect of distance on air quality rises in β ($\frac{\partial^2 q}{\partial x \partial \beta} > 0$). α_0 and α_1 are parameters affecting “background” environmental quality and pollution/healthiness at the point source, respectively.¹⁶

Figure 1 plots healthiness as a function of distance for two possible values of β . For intuition, we can imagine that $x = 0$ is the location of a point source of pollution; then, air quality increases at a constant rate in distance from the point source. With larger β , pollution at the point source is higher, but so is the marginal effect of distance on air quality (the labeled points in Figure 1 can be ignored for now).

¹⁵For a lengthier discussion of utility and preferences in the context of limited information, see Hausman (2012).

¹⁶We assume that $x < \alpha_1$, so that $\frac{\partial q}{\partial \beta} = -\alpha_1 + x < 0$.

Figure 1: Incorrect Information Regarding Air Quality



Note: This figure plots the function $q = \alpha_0 - \alpha_1\beta + \beta x$ for *perceived* air quality (the dashed black line with a low β) versus *experienced* air quality (the grey line with a high β). The point A is the perceived air quality for a low-income household, and B the experienced air quality for that same household. C and D give believed and experienced air quality, respectively, for a high-income household.

The consumer's maximization problem is

$$\max_{x,y} U(q(x), y) \quad s.t. \quad px + y = m \quad (2)$$

where p is the price of distance, the price of y is normalized to one, and m is income. Here, we assume that the house price is linear in distance to the point source.¹⁷ We also assume that the price schedule does not shift in response to changes in information; this assumption is most appropriate when only a small number of households experience changes in information. In Section 2.3, we relax these assumptions by allowing for endogenous prices in a pure exchange economy.¹⁸

Because the consumer doesn't observe q , she doesn't incorporate it directly in her maximization problem. Instead she maximizes over what she can observe, by making an assumption about the relationship between q and x . Under full information, the consumer knows the true value of the β parameter that relates q and x , which we denote β_1 . In contrast, under limited information she believes that the parameter takes some perceived value β_0 .

¹⁷House prices that increase with distance could arise from a standard hedonic model, as in Greenstone (2017).

¹⁸For simplicity, we define income as exogenous to the model; research has, however, shown that pollution can affect income (Graff Zivin and Neidell, 2012). This may exacerbate the inequalities we document.

We assume that $\beta_0 < \beta_1$ (i.e., distance matters more for true utility than the consumer is aware), but of course one could solve the model under the opposite assumption. So her true utility is determined by the true air quality $q(x, \beta_1)$, but when misinformed, she will choose x to maximize utility assuming $q(x, \beta_0)$.

2.1 Demand for Environmental Quality

We solve the consumer’s utility maximization problem to obtain the demand for distance. Initially, we assume the household correctly perceives the relationship between distance and air quality. As we show in the Appendix (Section A3.1), demand for distance is given by:

$$x^* = \frac{\gamma m}{p} - \frac{(1 - \gamma)(\alpha_0 - \alpha_1 \beta)}{\beta} \quad (3)$$

This is similar to the typical Cobb-Douglas demand equation, but with a linear shifter that depends on preferences and on the relationship between air quality and distance.

From this demand equation, it is straightforward to see that distance from the point source is a normal good: $\frac{\partial x^*}{\partial m} = \frac{\gamma}{p} > 0$. Since $\frac{\partial q^*}{\partial x^*} = \beta$, we have that $\frac{\partial q^*}{\partial m} = \frac{\gamma \beta}{p} > 0$: air quality is also a normal good. This occurs because low-income households choose less distance to the pollution source, due to their budget constraint. This result provides the basis for one potential definition of an environmental injustice or disparity:

Environmental Justice Metric 1. *Low-income households experience lower environmental quality, i.e., environmental quality is increasing in income: $\frac{\partial q^*}{\partial m} > 0$.*

This is the metric referred to in much of the economics literature on disproportionate siting and pollution exposure. Environmental justice researchers have pointed to correlations between air quality and income as evidence of the existence of an injustice.¹⁹ Economists have frequently countered that low-income households have *chosen* to sort into neighborhoods with low air quality, that is, to “move to the nuisance.” The condition for EJ Metric 1 is the mathematical foundation of the policy prescription that economists have tended to propose in the past: redistribution of income, rather than other environmental or information interventions.

¹⁹Note that our model has thus far only incorporated income-based inequality. In Section 4, we discuss extensions that apply to racial inequality.

2.2 Information Failures and Experienced Air Quality

Suppose now that the household *misperceives* β , believing it to be lower than it truly is. She thus believes that air quality is higher than it really is, and that distance matters less than it truly does. In this case, households experience worse air quality than they expect regardless of income level. However, the amount of *hidden* pollution experienced varies across households. Returning to Figure 1, we can visualize the relationship between hidden pollution and income.

A relatively lower-income household selects a distance x that yields perceived air quality at point A. However, because air quality is worse than the household believes, it experiences true air quality B. Because air quality is a normal good, the relatively higher-income household chooses a greater distance, believing it has chosen air quality at point C but in reality experiencing air quality at point D. Crucially, because of the physical pollution dissipation process, the wedge between true and believed air quality is larger for the low-income household than for the high-income household. This provides the basis for our second environmental justice metric:

Environmental Justice Metric 2. *Low-income households experience a greater hidden level of pollution, i.e., the amount of hidden pollution is decreasing in income.*

EJ Metric 2 holds if:

$$\frac{d(|q(x(\beta_0), \beta_1) - q(x(\beta_0), \beta_0)|)}{dm} < 0. \quad (4)$$

The household experiences air quality $q(x(\beta_0), \beta_1)$, in which x is chosen as a function of β_0 but translates into air quality (which impacts utility) as a function of β_1 . In contrast, the household has chosen x assuming β_0 and believing it translates into air quality as a function of β_0 . We have written the metric in absolute value terms because, recalling that the amount of hidden air quality is negative (the amount of hidden *pollution* is positive) – see Figure 1 – we find that all households experience a negative amount of hidden air quality, and that this amount is smaller in absolute value for high-income households.

It is easy to see graphically that this holds in Figure 1, implying the existence of this kind of environmental disparity. We provide a proof using the expressions for $q(x(\beta_0), \beta_1)$ and $q(x(\beta_0), \beta_0)$ in the Appendix (Section A3.2). This metric incorporates some of the intuition that one sees in advocacy reports, which sometimes argue that low-income households have experienced greater levels of hidden pollution when, for instance, firms do not initially reveal the full extent of their emissions or regulatory oversight is weak (United Church of Christ, 1987). Note that whether the disparity implies an injustice may depend in part on the cause

of hidden pollution – such as illegal behavior by firms versus a lack of scientific information.

The second environmental justice metric is illuminating, but it is incomplete in two ways. First, it is in units of physical pollution exposure, rather than in utility terms. Second, a more appropriate counterfactual might be not to compare experienced air quality and perceived air quality, but rather experienced air quality and the *optimal* air quality that the household would have chosen, given full information. That is, whereas EJ Metric 2 compares $q(x(\beta_0), \beta_1)$ to $q(x(\beta_0), \beta_0)$, we might care more about a comparison between utility associated with $q(x(\beta_0), \beta_1)$ and utility associated with $q(x(\beta_1), \beta_1)$. We thus turn to an analysis that allows households to re-optimize all of their consumption decisions in response to full information and then calculates the utility gain associated with that ability to fully optimize.

Recall that the demand for distance is given by (Equation 3)

$$x^* = \frac{\gamma m}{p} - \frac{(1 - \gamma)(\alpha_0 - \alpha_1 \beta)}{\beta}$$

for whatever β the household perceives, and that the true relationship between distance and air quality is given by (Equation 1)

$$q = \alpha_0 - \alpha_1 \beta_1 + \beta_1 x$$

Substituting the expression for x^* into the expression for q , we can write optimal air quality under full information, which we denote q^* , as

$$q^* = q(\beta_1, x^*(\beta_1)) = \alpha_0 - \alpha_1 \beta_1 + \beta_1 \left(\frac{\gamma m}{p} - \frac{(1 - \gamma)(\alpha_0 - \alpha_1 \beta_1)}{\beta_1} \right) \quad (5)$$

In contrast, the chosen air quality under limited information, which we denote q^\dagger , is given by

$$q^\dagger = q(\beta_1, x^\dagger(\beta_0)) = \alpha_0 - \alpha_1 \beta_1 + \beta_1 \left(\frac{\gamma m}{p} - \frac{(1 - \gamma)(\alpha_0 - \alpha_1 \beta_0)}{\beta_0} \right) \quad (6)$$

Here x^\dagger denotes the consumer's chosen distance under limited information, i.e., what she *believes* to be the optimal distance given her information set. The difference between the optimal and experienced level of air quality is $q^* - q^\dagger = \frac{\alpha_0(1-\gamma)(\beta_1-\beta_0)}{\beta_0} > 0$. Under the simplifying assumptions we have made, we see that all households would have re-optimized to a higher level of air quality q^* , and the amount by which they would have changed their air quality purchase ($q^* - q^\dagger$) does not depend on income.

Lost air quality leads to deadweight loss, and we next explore whether the level of that utility loss varies with income. The difference in utility under full information and under

limited information for any household is given by:

$$\Delta U = (q^*)^\gamma (y^*)^{1-\gamma} - (q^\dagger)^\gamma (y^\dagger)^{1-\gamma} \quad (7)$$

This difference represents the value of information. Moreover, it gives us a third potential definition of an environmental disparity:

Environmental Justice Metric 3. *Low-income households experience a greater deadweight loss from incorrect information regarding pollution: $\frac{d\Delta U}{dm} < 0$.*

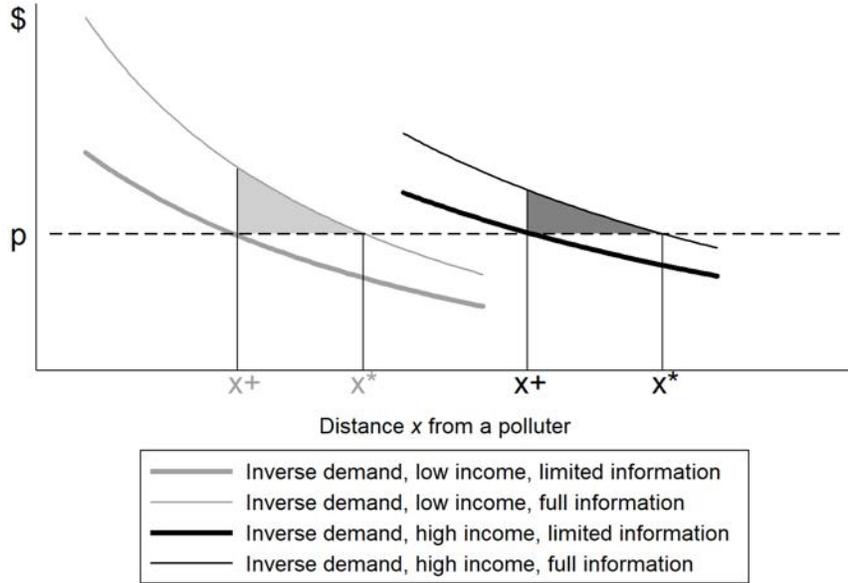
In the Appendix (Section A3.3), we derive the sign of the derivative of ΔU with respect to income, showing that $\frac{d\Delta U}{dm} < 0$. Therefore, under the assumptions we have made (limited information; Cobb-Douglas utility; etc.), an environmental disparity of this type exists. The intuition for this is that the low-income household would have received greater marginal utility from avoiding the hidden pollution than would have the high-income household (because of declining marginal utility). Later, we expand on this intuition to show alternative frameworks where it might not hold. We also give intuition using a consumer surplus framework, below.

One could also consider a “proportional” version of this metric, in which deadweight loss is divided by income. Such a metric incorporates the idea that low-income households experience greater pollution exposure while simultaneously having fewer economic resources for dealing with the health effects of the hidden pollution, which has been highlighted in some of the related literature (United Church of Christ, 1987; Fleischman and Franklin, 2017). The absolute version defined here is a stricter condition: if it holds, then the proportional version does, too (that is, if $\frac{d\Delta U}{dm} < 0$, then $\frac{d\frac{\Delta U}{m}}{dm} < 0$); if it does not hold, then the welfare “burden” as a proportion of one’s income could still be greater for lower income households.

For some empirical applications, the researcher might not observe the full utility function but may be able to estimate demand and thus consumer surplus. It is easiest to visualize the change in consumer surplus by considering the demand for distance x from the point source. Figure 2 shows how to evaluate this increase in consumer surplus. When believing that air quality relates to distance via a parameter value of β_0 , the low-income consumer (grey) demands x^\dagger , the lowest demand function pictured. If instead informed that air quality relates to distance via β_1 , the low-income consumer will demand x^* . The consumer surplus gain associated with full information can thus be evaluated as the area under the full-information inverse demand curve over the range (x^*, x^\dagger) , minus the change in expenditure. The outer grey demand curve comes from the true underlying utility function and thus is the appropriate demand curve to use for evaluating consumer surplus.

As we show in the Appendix (Section A3.4), $\frac{\partial \Delta CS}{\partial m}$ is negative, so Metric 3 holds under

Figure 2: Consumer Surplus



Note: This figure plots demand for distance under full (thin lines) versus biased (thick lines) beliefs about β , for low-income (grey) versus high-income (black) individuals. Shaded areas show deadweight loss from limited information, given by the area under the full-information inverse demand curve over the range x^\dagger to x^* , minus the change in expenditure.

the assumptions we have made when evaluated using consumer surplus rather than the full utility function. For intuition, recall that we have shown that the wedge between x^\dagger and x^* does not change with income. So in comparing the grey and black areas in Figure 2, what matters is the height (and the curvature) of demand. We show in the Appendix (Section A3.5) that the height is decreasing with income; that is, $\frac{\partial p^\dagger}{\partial m} < 0$, where p^\dagger is the price that would have yielded x^\dagger in the full information case. So it is intuitive that we show that consumer surplus is also decreasing with income. Below, we discuss to what extent this result generalizes when we relax assumptions about utility, pollution dissipation, and housing prices.

2.3 Endogenous Prices

Our theoretical analysis thus far has held constant the marginal price of distance. It is natural, however, to wonder what would happen in an equilibrium framework in which prices are allowed to vary with information. We note first that allowing prices to vary endogenously in the model does not affect EJ Metrics 1 and 2. Recall that EJ Metric 1 holds because air quality is a normal good: high-income individuals purchase relatively more air quality, and that holds even when prices vary. EJ Metric 2 says that low-income households are physically

more affected by underestimation of pollution damages. This result of the model relies on air quality being a normal good and on the physical pollution dissipation process. Since EJ Metric 2 is about hidden pollution at the uninformed equilibrium, rather than about what happens with re-optimization, it is unaffected by how we model prices.

Turning to EJ Metric 3, we evaluate whether the low-income household experiences greater deadweight loss from limited information than does the high-income household. We explore this setting by modeling pure exchange, in which two individuals have initial endowments of distance to a point source and a numeraire, and the total supply of each good is fixed. The price of distance is therefore endogenous, responding to changes in the perceived utility function.²⁰ We derive equilibrium outcomes and environmental justice metrics in the Appendix (Sections A3.6 and A3.7). Here, we describe the intuition for what happens when prices change.

The key point from this exercise is that the price of distance is higher when pollution is known to be higher (specifically, when β is higher). This happens because the marginal value of distance x is greater at every level of x , so both households have greater demand for distance under full information. That is, under limited information, the price of distance is artificially too low. Since high-income households purchase more distance, an artificially low price helps the high-income household more than it helps the low-income household. Meanwhile, as before, low-income households also experience more hidden air pollution (EJ Metric 2), and in a full-information counterfactual, increasing distance would have meant larger marginal gains in utility for the low-income household (because of declining marginal utility).

Overall, then, we see that the intuition regarding a larger deadweight loss for low-income households is not overturned by allowing prices to vary endogenously in this pure exchange economy with Cobb-Douglas preferences. A formal proof for EJ Metric 3 can be found in the Appendix (Section A3.6). The Appendix also shows similar intuition for a pure exchange model in which there are two houses at fixed distances (Section A3.7).

3 Generalized Model

The models in Section 2 yield three key results: lower income households choose relatively less air quality than their richer counterparts; they experience relatively more hidden air pollution; and they experience relatively more utility loss from limited information. Note

²⁰We note that our analysis holds income from housing fixed – the changing price of x only affects the perceived utility function, not initial wealth. Mathematically, we show that the utility benefit of full information decreases in the initial allocation of the numeraire good, i.e., y^0 .

that the only difference across households is their income level; we do not need to impose any particular heterogeneity in preferences or access to information across households to see inequalities from information failures (although we discuss the potential for such heterogeneity below in Section 4). The same mistake made by all households leads to inequality – not just in pollution exposure, but in welfare itself. Next, we develop a more general model that relaxes some of our assumptions, so that we might better understand which aspects of the model drive the key results.

Consider a household that, as before, derives utility from healthiness q (a function of air quality) that is not directly observable by the consumer but is a function of distance x to a source of pollution. We now posit that this household also gets utility from salient neighborhood amenities s , which are similarly a function of distance x to a pollution source, in addition to all other goods y . We assume that $\frac{\partial q}{\partial x} > 0$ and $\frac{\partial s}{\partial x} > 0$: both amenities increase with distance, so that they are positively correlated.²¹ One can interpret s as salient pollution and q as hidden pollution, or s as salient health impacts of air pollution and q as non-salient ones. Alternatively, one can interpret s as salient *non*-pollution amenities (such as lack of noise, or availability of green space) that are correlated with hidden pollution q – we provide empirical context for this interpretation in the following section.²²

In this version of our model, we do not impose a Cobb-Douglas utility function. We do assume that all goods provide positive utility at a declining rate ($U_q > 0$, $U_{qq} < 0$, and the corresponding conditions for s and y). We also relax our previous assumption of house prices rising linearly in distance to the point source: now, we only require that house prices increase with distance according to some hedonic price schedule, which need not be either strictly concave or strictly convex. We continue to assume that the hedonic price schedule does not shift with changes in information, but we note that the distributional effects of such a shift are ambiguous (Kuminoff and Pope, 2014).

Suppose the consumer is completely uninformed about air pollution. Then she optimizes according to the following:

$$\max_{x,y} U(s(x), y) \quad s.t. \quad p(x) + y = m \quad (8)$$

She fails to incorporate $q(x)$ into her decision-making, since she is unaware of how it impacts

²¹In this generalized model, it would be straightforward to incorporate an interpretation of x other than distance, since all we are assuming is that both salient and non-salient amenities are correlated with some signal variable x .

²²We highlight lack of noise and availability of green space because they are directly tied to the same industrial sources that produce pollution. In this model, other non-pollution amenities, such as school quality and crime, are assumed to be part of the y good; however, one could extend the model to allow them to be correlated, whether positively or negatively, with distance x .

her utility. She does, however, incorporate distance to the point source into her decision, since distance yields other, salient amenities (visible pollution, a lack of noise, or a nice view). Note that this setup nests the narrower model of the last section, in which the salient disamenity – known pollution – is captured in $q(x)$ and the non-salient disamenity – hidden pollution – is positively correlated with the choice q^\dagger .

We derive first-order and second-order conditions for this problem in the Appendix (Section A3.8). Using comparative statics, we show that $\frac{\partial x^\dagger}{\partial m} > 0$ (i.e., distance is a normal good) if $\frac{\partial p}{\partial x^\dagger} U_{y^\dagger y^\dagger} > U_{s^\dagger y^\dagger} \frac{\partial s^\dagger}{\partial x^\dagger}$.²³ This is similar to the standard condition for a normal good, except that it incorporates the potential for the hedonic price schedule to be non-linear as well as the impact of distance x on salient amenities s at the misinformed optimum.

Because $\frac{\partial s}{\partial x} > 0$ (the salient amenity is increasing in distance), we know that if distance is a normal good, then the salient amenity is a normal good as well. Thus, the condition for the first environmental justice metric holds: low-income households experience higher levels of pollution. In general, salient environmental quality will be a normal good unless U_{sy} is negative and large. Similarly, because $\frac{\partial q}{\partial x} > 0$ (“hidden” environmental quality is increasing in distance), we know that if distance is a normal good, hidden environmental quality is as well. Thus, under very few assumptions, the condition for EJ Metric 2 holds too, and lower income households are exposed to greater levels of hidden pollution.

Turning to the third environmental justice metric, we ask whether the welfare impact of incorrect information is larger for low-income or high-income households. As before, we can evaluate the difference in utility at the optimal bundle under full information (q^*, s^*, y^*) versus the selected bundle under limited information $(q^\dagger, s^\dagger, y^\dagger)$. The bundle (q^*, s^*, y^*) is determined by optimization under full information:

$$\max_{x,y} U(q(x), s(x), y) \quad s.t. \quad p(x) + y = m \quad (9)$$

We evaluate the difference in the utility given by the two bundles:

$$\Delta U = U(q^*, s^*, y^*) - U(q^\dagger, s^\dagger, y^\dagger) \quad (10)$$

Thus,

$$\frac{d\Delta U}{dm} = U_{q^*} \frac{\partial q^*}{\partial m} + U_{s^*} \frac{\partial s^*}{\partial m} + U_{y^*} \frac{\partial y^*}{\partial m} - U_{q^\dagger} \frac{\partial q^\dagger}{\partial m} - U_{s^\dagger} \frac{\partial s^\dagger}{\partial m} - U_{y^\dagger} \frac{\partial y^\dagger}{\partial m} \quad (11)$$

While this is unambiguously negative in the simplified model presented in Section 2, it cannot in general be signed as is; it depends on additional assumptions about utility.

²³Other housing papers simply assume normality of the good in question; for a discussion of this assumption and how it leads to a single-crossing property in sorting models, see Epple and Romer (1991).

Consider instead how utility changes for a small perturbation of the value of x around the uninformed equilibrium $(q^\dagger, s^\dagger, y^\dagger)$. This utility change is given by $U_{q^\dagger} \frac{\partial q^\dagger}{\partial x^\dagger} dx$.²⁴ We show above that q^\dagger is smaller for low-income consumers than for high-income consumers (s is a normal good, so x is a normal good, so q is a normal good). As a result, U_{q^\dagger} is larger for low-income consumers (recall that $U_{qq} < 0$). Also, because of how pollution dissipates, it will typically be the case that $\frac{\partial q^\dagger}{\partial x^\dagger}$ is weakly larger for low-income consumers.²⁵ Put together, $U_{q^\dagger} \frac{\partial q^\dagger}{\partial x^\dagger}$ is larger for low-income consumers, which works in favor of Metric 3 holding. However, we don't know whether dx is larger for low-income or high-income consumers. In the simplified Cobb-Douglas model we present in the previous section, dx is invariant to income, but that need not be the case in general. In the Appendix (Section A3.9) we show that similar intuition applies for Stone-Geary utility, which in our simplified model yields dx that is invariant to income. However, we also show in the Appendix (Section A3.10) that dx is increasing in income for a utility function with Constant Elasticity of Substitution (CES). In keeping with this, we can show parameterizations of CES utility for which Metric 3 does hold, as well as parameterizations for which it does not.

In general, if dx is much larger for high-income consumers, outweighing the $U_{q^\dagger} \frac{\partial q^\dagger}{\partial x^\dagger}$ effect, then Metric 3 will not hold.²⁶ Overall, in cases where pollution dissipates with distance, air quality is a normal good, and consumers underestimate the true level of pollution, low-income households will be more exposed to hidden pollution. Whether deadweight loss is larger for these households is an empirical question. We turn to the broader subject of empirical considerations in the next section.

4 Applications

The exercises in Sections 2 and 3 are theoretical, and they are specifically focused on air pollution and housing choice when households sort into homes based on income. In this section, we connect our analysis and findings to the broader context of real-world environ-

²⁴To see this, write the change in utility as a change in the marginal utilities from s and q and y , when the consumer buys slightly more x and slightly less y : $dU = U_{s^\dagger} \frac{\partial s^\dagger}{\partial x^\dagger} dx + U_{q^\dagger} \frac{\partial q^\dagger}{\partial x^\dagger} dx + U_{y^\dagger} dy$. Then recall that the change in expenditure on x must be equal to the negative of the change in expenditure on y , from the budget constraint, and that $U_{s^\dagger} \frac{\partial s^\dagger}{\partial x^\dagger}$ must be equal to $\frac{\partial p}{\partial x} U_{y^\dagger}$, from the first-order conditions. This leaves only the expression $U_{q^\dagger} \frac{\partial q^\dagger}{\partial x^\dagger} dx$.

²⁵If pollution dissipation is linear, then $\frac{\partial q^\dagger}{\partial x^\dagger}$ is invariant to income. More realistically, if the dissipation follows exponential decay, then $\frac{\partial q^\dagger}{\partial x^\dagger}$ is larger for low-income consumers.

²⁶Similarly, in evaluating consumer surplus over distance, rather than the full utility function, whether deadweight loss increases or decreases with income will depend on whether the change in distance is increasing or decreasing, as well as whether the height of the inverse demand curve is increasing or decreasing. Both of these could be evaluated in particular empirical contexts, for instance via stated preference analysis.

mental and energy policy. We begin by discussing the implications of our modeling exercises for empirical work. Next, we review existing empirical work that corroborates our model findings and underscores the challenges of estimating the value of information going forward. Third, we describe an empirical exercise of our own (laid out in full in Appendix Section A4.2) that illustrates how co-located disamenities could produce disproportionate hidden pollution exposure. Fourth, we highlight the policy implications of our findings. Fifth, and finally, we illustrate the potential relevance of our modeling exercise in other settings.

4.1 Implications of Our Modeling Work for Empirics

There is a long-standing economics literature, spanning multiple settings, on the adverse impacts of limited information. Our model departs from this literature in its treatment of the distribution of missing information. Whereas other papers are motivated by or focus exclusively on the implications of *heterogeneity* in information or in the willingness to pay for information, we assume that every individual is wrong about air quality in the same way. In our simplified model, all individuals have the same mistaken belief about a key parameter in the estimation of air quality or its health impacts (which we model through β). In our more general model, all individuals might even know nothing about air quality and choose locations based on other salient home attributes and goods. We stress that cross-sectional differences in knowledge of air quality, in access to healthcare, or in underlying co-morbidities would also affect the distribution of pollution exposure, and they could either exacerbate or alleviate inequality.

Our model does abstract from several theoretically- and empirically-established facts about preferences, prices, and pollution. We model imperfect information on only dimension (air quality); future empirical work could explore the efficiency and equity implications of imperfect information about a vector of attributes such as school quality, crime, and intergenerational mobility (Chetty and Hendren, 2018*a,b*). Also, we model households as differing only in their incomes (Ellickson, 1971),²⁷ but real-world preference heterogeneity can lead to different equilibrium sorting of households into locations (Epple and Platt, 1998). We also employ a static model that allows (in our more general version) the price of distance to adjust but no other general equilibrium effects; see, for instance, Kuminoff, Smith and Timmins (2013) for an in-depth review of such effects, and Bayer et al. (2016) for a dynamic model of housing demand. Thirdly, we have not modeled other sources of inequality. For instance, inequality in access to health care could interact with the inequalities we document (Mullins and White, 2020); additionally, there is empirical evidence that pollution affects

²⁷In particular, our modeling exercise is consistent with early theory on equilibrium sorting that uses the “single-crossing property” of Ellickson (1971).

labor productivity and therefore income (Graff Zivin and Neidell, 2012). We have chosen to focus on a relatively simpler model in order to highlight the basic logic of our argument, but the added complexity of real-world markets and behavior means that the effect of limited information on inequality likely varies from setting to setting.

Despite the restrictions of our theoretical exercise, the results that it produces have important implications for the revealed preference models that are frequently used in environmental economics. Such models assume that agents have full information, or at least that the economist is able to observe agents' beliefs about the goods over which they are choosing. We argue in Section 1 that many individuals are not fully informed about their pollution exposure. The empirical researcher, then, must take a stand on what individuals' beliefs are regarding their exposure. As Hausman (2012) argues, when we observe Romeo choosing poison over eloping with Juliet, we must remember that Romeo believes that Juliet has died: "he does not prefer death to life with Juliet. His choice does not reveal his preference, because he is mistaken about what the alternatives are among which he is choosing" (p 28). Similarly, when we observe households sorting across neighborhoods, we must acknowledge that they are frequently mistaken about the level of health risks across neighborhoods, and temper our conclusions regarding their preferences accordingly.

In fact, our results point to the possibility of *either* overestimation of marginal willingness to pay *or* underestimation of marginal willingness to pay in empirical revealed preference studies of, for instance, air quality and the housing market. Suppose a researcher observes that a household is willing to pay \$100 more for house A than for house B, where the two houses are identical except for one unit less of ambient pollution at house A. From this, the researcher concludes that the household has a marginal willingness to pay to avoid pollution of \$100 per unit. If it turns out that house A also has 1 unit less of a salient disamenity (such as noise), about which the home-buyer is aware but the econometrician is not, then of course the empirical estimate is biased, and the homeowner actually has a marginal willingness to pay of less than \$100 per unit of air quality (some of the \$100 was spent to avoid the other disamenity). In this case, the researcher has overestimated the willingness to pay.

However, suppose that households are not fully informed, and they believe that house A has only 0.5 units less of ambient pollution (because of imperfect monitoring, fraud on the part of the polluting firm, etc.). In that case, the home-buyer that is willing to pay \$100 more actually has a marginal willingness to pay of \$200 per unit of air quality. This point is illustrated in an empirical application in Ma (2019), where willingness to pay estimates are significantly larger after accounting for incomplete information in a Bayesian updating framework. As such, we argue that hedonic methods should account for limited information regarding amenities more explicitly than has generally been done in the literature. Bishop

et al. (2020) also argue for incorporating information and subjective beliefs, pointing to the possibility of using survey data.

4.2 Evidence from Existing Empirical Work

In this section we discuss how existing empirical work corroborates our primary theoretical findings. In the Appendix (Section A4), we also provide descriptive empirical evidence of our own that is consistent with our first and second environmental justice metrics.²⁸ We do not attempt to empirically estimate causal effects of information failures on welfare, but we discuss opportunities for future empirical work.

We highlight three empirical studies that, through their findings, illustrate the potential for uniformly imperfect information to cause disproportionate pollution exposure and welfare loss among low income households. The first is by Currie and Walker (2011), who investigate the impacts of the introduction of EZ-Pass toll lanes on health, demographics, and property values. Their estimates imply a large negative effect of traffic congestion on infant health relative to the previous literature, which suggests that households may not have historically been fully aware of the true health impacts of traffic before making their housing choices. They also find incomes to be relatively lower near busy roads. Thus, despite a lack of complete information about pollution and its health impacts, households still sorted into homes such that those with lower income experience more air pollution. Finally, they fail to find short-run changes in demographics and housing prices in the aftermath of EZ-Pass toll openings. This fact could be driven by lack of information, though other explanations (like stickiness driven by moving costs) are possible.

Currie et al. (2015), meanwhile, examine the various impacts of polluting plant openings and closings. Notably for our context, they show that the *existence* of a plant – a relatively salient disamenity – changes home values, but the *relative toxicity* of a plant (which is perhaps less salient) does not. They suggest that “a possible explanation for the absence of such a pattern is that households have imperfect information. Given the lack of scientific evidence about the health effects of exposure, such ignorance would not be surprising” (p 697). The authors also find that house price declines in response to plant openings are largest in disadvantaged communities; this suggests that willingness to pay for environmental quality is not lower among disadvantaged communities when pollution is salient.

Finally, Ma (2019) estimates marginal willingness to pay (MWTP) for brownfield remediation, using a structural model of information shocks. She finds that ignoring households’

²⁸In particular, we assess who is likely to have experienced the most hidden pollution exposure in two specific empirical settings of information failure: one in which the failure is an underestimate of the health effects of lead pollution, and another in which the failure is underreporting of emissions by refineries.

lack of information leads to underestimation of MWTP, and that minority and low-income groups place a higher value on information in this context. This suggests that information provision would help these groups the most, consistent with our model. Furthermore, the benefit of information is large relative to the value of cleanup itself: Ma notes that “Comparing the estimates under learning to that from assuming full information, the MWTP [for a decrease in contamination] with learning is 50% higher than the willingness to pay estimate without learning, rising from \$326.15 per unit of contamination to \$499.01” (p 1376).

These papers support the notion that imperfect information accounts for a meaningful fraction of disproportionate pollution exposure among low income households and people of color, but more empirical work on the subject is needed. Distinguishing the effects of information failures from those of other factors is quite challenging, however, for several reasons. First, it is difficult to accurately measure “informedness.” In Ma’s case, for example, brownfield assessment reports are used as a proxy for households’ information; as Ma notes, though, this requires an assumption that households actually observe the information contained in these reports (and moreover that such information is accurate). Second, the researcher must be able to distinguish informedness from forward-looking behavior (Ma, 2019). In the housing context, individuals may choose to live somewhere based on the *expectation* of future improvements in environmental quality, and this may be confused with a lack of information if not explicitly modeled. Third, frictions like the cost of moving and the cost of obtaining information may explain behavior and similarly must be disentangled from the effects of information or a lack thereof. For instance, a household that does not move after an apparent negative shock to local amenities may not know about the shock, or it may know but not be able to move.

For these and other reasons, researchers have often only been able to *infer* a lack of information indirectly from empirical findings that appear inconsistent with full information (e.g., Currie et al., 2015; Lang and Cavanagh, 2018). More direct evidence of the impact of imperfect information on experienced environmental quality and welfare will require panel data on information levels, demographics, income, and property values, in addition to consideration of the aforementioned frictions and dynamics. Armed with such data, researchers may be able to elucidate information’s effect on equity in the air quality context as well as others, like energy efficiency and water quality.

4.3 Evidence on the Role of Co-Located Disamenities

The general model in Section 3 shows that, in theory, disproportionate pollution exposure can emerge even when households know nothing about local pollution; this happens because

households sort on observable (dis)amenities that are co-located with hidden pollution. In the absence of information about air quality, a household will choose the best (i.e., highest-utility) residential location based on other, more salient attributes (though the choice may *appear* to be pollution-based to the econometrician). For instance, suppose a household is unaware of the work by Currie and Walker (2011) documenting the health impact of roadway congestion, and as a result, it does not take into consideration differential exposure according to distance to highways or other busy routes. At the same time, the household does know that highways are noisy and ugly. All else equal, it would not like to live too close to the highway, wishing to avoid noise and wanting a nicer view.²⁹ Similarly, suppose a household is unaware that small airports are sources of lead exposure (Zahran et al., 2017) but wishes to avoid airport noise. Finally, a household may be aware of some but not all pollutants, and pollutants are frequently highly correlated with one another (Currie and Neidell, 2005).

This thought exercise suggests that the correlation between these salient amenities (i.e., lack of noise and lack of an ugly view) and the hidden amenity (lack of health-damaging air pollutants) is an important determinant of experienced environmental quality.³⁰ To shed light on this correlation, we assemble fine-grained data on air pollution, noise pollution, and land use from the EPA, the US Department of Transportation, and US Department of the Interior.

In the Appendix (Section A4.2), we use both visual evidence and regression analyses to show that salient amenities are highly correlated with pollution. As a result, if an individual were to choose one neighborhood over another based on differences in noise levels and land use amenities, her exposure to air pollution would be impacted even if she were not intentionally making a decision based on pollution levels. In this context, the model in Section 3 shows how environmental inequities can arise, if a lack of noise and access to land use amenities are normal goods. We also provide suggestive evidence in the Appendix that these co-located amenities are indeed normal goods. While the existing literature has focused on the empirical difficulties with observing various co-located amenities, we show that in addition the researcher must observe whether each amenity is known to the households – otherwise, estimated willingness to pay could be biased in that it reflects different levels of information or salience across correlated amenities.

²⁹Von Graevenitz (2018) shows empirical evidence on the value of reduced road noise.

³⁰Here and throughout, we refer to “experienced” environmental quality as the true level to which a household is exposed, as opposed to “perceived” environmental quality, the level which the household believes it is getting.

4.4 Policy Implications

Our work underscores the importance of considering information-based policies in pursuit of distributional equity. Access to accurate information about the location of pollution and polluters has long been a focus of environmental justice communities and scholars. Recent Biden Administration policy follows suit: Executive Order (EO) 14008 (“Tackling the Climate Crisis at Home and Abroad”), signed just one week into the Biden Presidency, contains multiple references to the creation of new data tools and communication strategies for the purposes of addressing environmental injustices. It directs the Council on Environmental Quality to “create a geospatial Climate and Economic Justice Screening Tool” and to “annually publish interactive maps highlighting disadvantaged communities.” It also directs the EPA to “create a community notification program to monitor and provide real-time data to the public on current environmental pollution, including emissions, criteria pollutants, and toxins, in frontline and fence-line communities – places with the most significant exposure to such pollution.”

Our main conceptual finding – that a lack of or mistaken information may exacerbate disproportionate pollution exposure (and resulting welfare loss) among low income households and people of color – underscores the importance of considering the aforementioned types of actions named in EO 14008. In particular, our work implies that information provision has the potential to be not just efficiency-improving, but also distributionally progressive. This potential is augmented by the fact that information-based policies may be significantly lower cost and less politically challenging to implement than other proposed solutions (though they are not *sufficient* for full equity). Thus, further research into the effects of pollution on well-being, more expansive environmental monitoring, and better communication of facts about the location, magnitude, and impacts of pollution are all promising avenues for addressing persistent environmental injustice.

4.5 Extensions to Other Contexts

We have shown that a lack of a full information can theoretically do more than just cause overall efficiency (i.e., deadweight) loss; it can also exacerbate the disparities that emerge from environmental quality being a normal good. In the context of the causes of disproportionate exposure, then, we can say that our model shows how missing information works through the “moving to the nuisance” channel. However, it could also act through other channels less directly dependent on income, such as racism or targeting based on political power. For instance, if racism in the housing market leads communities of color to be more exposed to salient pollution, missing information may cause such communities to be more

exposed to hidden pollution as well. In general, systematic underestimation of pollution and its impacts has the potential to make existing inequality worse than previously thought. In this regard, our findings are relevant to the discussion of climate justice across countries: there is evidence that the damages of climate change are experienced disproportionately by low-income countries (Dell, Jones and Olken, 2012; Heal and Park, 2016), and as-yet undiscovered impacts of climate change may amplify the disparity.

In both our simplified model and our generalized model, two conditions drive our results: (1) a salient normal good; and (2) a positively correlated non-salient good. In contexts where these conditions are satisfied, limited information may contribute to inequality. We thus believe that information failures have the potential to create disparities in other environmental and energy contexts. Consider, first, the application of water quality. Willingness to pay for it has been shown to rise with both income and information provision (Jalan and Somanathan, 2008; Graff Zivin, Neidell and Schlenker, 2011). It is plausible that in some contexts – for example, rural groundwater quality (Kremer et al., 2011) – less salient water quality may be positively correlated with more salient attributes of a water source, such as the source’s visual appearance. This example also illustrates that our model and findings may be relevant for all kinds of pollution avoidance behavior, whether it is the housing choice, the decision to purchase an air filter or mask, or the selection of a water source.

A second application of potential relevance is household energy efficiency. Evidence suggests that households are not fully informed about the value of energy efficiency (Graff Zivin and Novan, 2016; Cassidy, 2018) and that wealthier households are more energy efficient (Bednar, Reames and Keoleian, 2017). If the salient attributes of energy-using durables (for instance, the newness of a refrigerator or other home appliance) are positively correlated with the harder-to-measure energy efficiency, then income differences and information failures may interact to produce efficiency loss and inequality in energy-related outcomes. In fact, such inequality is one the main premises behind the field of “energy justice” (Hernandez, 2015).

5 Conclusion

There are several reasons to believe that individuals are lacking accurate information on local air pollution and its health impacts. In this paper, we demonstrate how this information failure can theoretically lead not just to economic inefficiency but also to inequality in pollution exposure and in well-being. We do this by deriving equilibrium comparative statics in two different models of residential location choice under limited information, which we motivate by pairing existing research with descriptive statistics on air quality and air quality stan-

dards. Our results suggest the potential for disparities under modest assumptions: relative to their higher-income counterparts, lower-income individuals experience greater pollution exposure, greater *hidden* pollution exposure, and – in some situations – greater welfare loss (as compared to full-information outcomes).

We close by highlighting three conceptual points that emerge from our work. First, the economics literature on the distribution of pollution exposure and the associated disutility focuses primarily on the roles of income, firm costs, and discrimination in a full-information world. To this literature, we add evidence that information limitations play an integral role as well, thus complicating the standard “moving to the nuisance” story. Second, there is a gap between economists and non-economists in the definition and understanding of what constitutes an environmental “injustice.” We help bridge this gap by jointly investigating the effects of income and information, and by considering not just pollution exposure but also *hidden* pollution exposure and welfare loss. Third, the estimation of willingness to pay for environmental quality has conventionally relied on revealed preference methods under an assumption of full information. We argue that the tendency of individuals to misestimate or underestimate air quality presents challenges to the interpretation of revealed-preference estimates.

There are several areas in which future research could advance our understanding of information, environmental quality, and welfare. Future empirical work could focus on estimating the effects of information provision, the value of information, and how the welfare impacts of information vary across groups. Where real-world quasi-experimental information shocks are not available, contingent valuation methods with randomly-varying levels of information could perhaps be used to calculate the value of information. Both quasi-experimental work and survey work could also help uncover the contexts in which pollution is most valuable, depending, for instance, on whether pollution is relatively salient or relatively hidden absent a policy intervention.

Future modeling work, meanwhile, could incorporate some of the phenomena that are not in the models presented here – such as the evolution of beliefs about pollution over time, the cost of obtaining information, and uncertainty. We have left our model deliberately simple, to show the potential for environmental disparities under very few assumptions, but future models could incorporate these additional considerations. Lastly, we have focused specifically on the role of information in the housing choice, but information also likely has played and continues to play important roles in both industrial siting and government policy decisions as well; we believe that future research on these roles would be very valuable.

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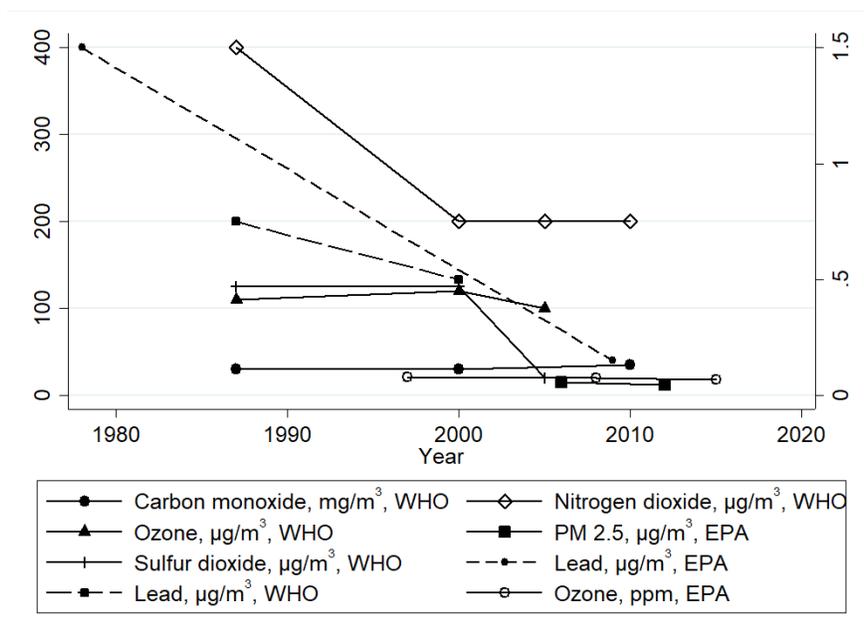
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Online Appendix

In Appendix Section A1, we present the figures and table referenced in the Background section of the paper (Section 1). In Section A2, we provide an overview of exponential pollution decay, which motivates our theoretical analysis in Section 2 of the main paper. In Section A3, we provide derivations and proofs for the models in paper Sections 2 and 3. Finally, in Section A4, we present three descriptive empirical exercises that document the likelihood of disproportionate hidden pollution exposure.

A1 Reporting and Standards Have Become Stricter Over Time

Figure A1: Air Pollution Guidelines Have Become Tighter



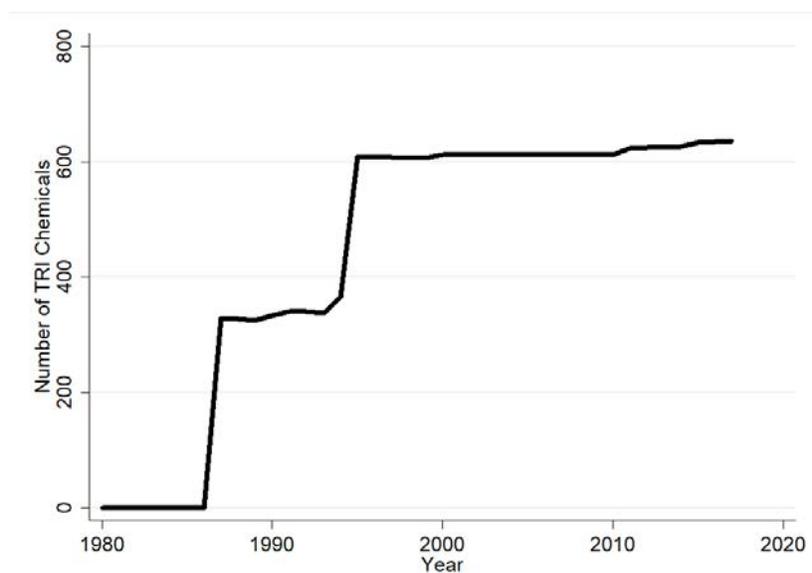
Note: This figure plots the changes in EPA standards and WHO guidelines for selected air pollutants. The left axis is used for all pollutants except lead and the EPA's ozone standard, which use the right axis. Some guidelines use the midpoint of a range; see Appendix Table A1 for the full range. For time frames (e.g., 8-hour standards versus annual average standards), also see Appendix Table A1. This figure plots only those standards and guidelines that have changed over time; for information on standards that have not changed, see original sources: WHO (2000, 2005, 2010, 2017); EPA (2018).

Table A1: Air Pollution Guidelines and Standards

| Year | Pollutant | Standard | Value |
|------|------------------|------------------------------------|---------|
| 1987 | Carbon monoxide | 1 hour, mg/m ³ , WHO | 30 |
| 2000 | Carbon monoxide | 1 hour, mg/m ³ , WHO | 30 |
| 2010 | Carbon monoxide | 1 hour, mg/m ³ , WHO* | 35 |
| 1987 | Lead | 1 year, μg/m ³ , WHO | 0.5-1.0 |
| 2000 | Lead | 1 year, μg/m ³ , WHO* | 0.5 |
| 1978 | Lead | 3 month, μg/m ³ , EPA | 1.5 |
| 2009 | Lead | 3 month, μg/m ³ , EPA* | 0.15 |
| 1987 | Nitrogen dioxide | 1 hour, μg/m ³ , WHO | 400 |
| 2000 | Nitrogen dioxide | 1 hour, μg/m ³ , WHO* | 200 |
| 2005 | Nitrogen dioxide | 1 hour, μg/m ³ , WHO | 200 |
| 2010 | Nitrogen dioxide | 1 hour, μg/m ³ , WHO | 200 |
| 1987 | Ozone | 8 hours, μg/m ³ , WHO | 100-120 |
| 2000 | Ozone | 8 hours, μg/m ³ , WHO* | 120 |
| 2005 | Ozone | 8 hours, μg/m ³ , WHO* | 100 |
| 1997 | Ozone | 8 hours, ppm, EPA | 0.08 |
| 2008 | Ozone | 8 hours, ppm, EPA* | 0.075 |
| 2015 | Ozone | 8 hours, ppm, EPA* | 0.07 |
| 2006 | PM2.5 | annual, μg/m ³ , EPA | 15 |
| 2012 | PM2.5 | annual, μg/m ³ , EPA* | 12 |
| 1987 | Sulfur dioxide | 24 hours, μg/m ³ , WHO | 125 |
| 2000 | Sulfur dioxide | 24 hours, μg/m ³ , WHO | 125 |
| 2005 | Sulfur dioxide | 24 hours, μg/m ³ , WHO* | 20 |

Notes: This table shows changes in EPA standards and WHO guidelines for selected air pollutants. We show all EPA standards that changed. We show WHO guidelines only for those pollutants for which the EPA has a standard and for which the WHO guideline changed. Sources are the WHO (2000, 2005, 2005, 2010, 2017); EPA (2018). Guidelines for less commonly monitored pollutants (e.g. cadmium, dichloromethane) are in the WHO reports.

Figure A2: Toxic Chemicals Reporting Has Grown Stricter

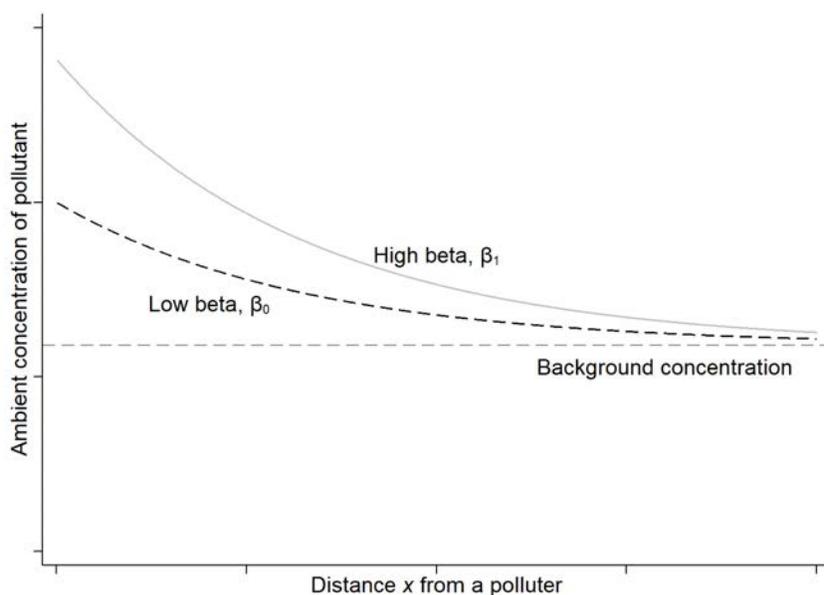


Note: This figure plots the count of Toxics Release Inventory- (TRI-) listed chemicals over time. The TRI program is an EPA-run mandatory reporting program for chemicals with cancer effects, other chronic health effects, significant acute health effects, and significant environmental effects. The source is EPA (2017).

A2 Exponential Decay of Pollution with Distance

Our theoretical exercise in Section 2 models the air quality – distance relationship using a linearization of exponential pollution decay. Figure A3 shows a typical pollution decay function, in which ambient pollution concentration C is a function of distance x : $C(x) = \alpha + \beta \exp(-x/k)$, where “the urban background parameter α represents concentrations far-from-highway..., the near-road parameter β represents the concentration increment resulting from proximity to the highway, and the decay parameter k governs the spatial scale over which concentrations relax to α ” (Apte et al., 2017, p 7004). This particular quote is from research on roadways, but note that similar decay has been found for other sources.

Figure A3: Exponential Decay of Pollution



Note: This figure plots the function $C(x) = \alpha + \beta \exp(-x/k)$ for two levels of β : low β_0 and high β_1 . Pollution is higher in β , and especially higher at small distances; put differently, air quality is lower in β , and especially lower at small distances.

We can re-write air quality q , i.e., the absence of pollution, as $q(x) = \tilde{\alpha} - \beta \exp(-x/k)$. With this type of pollution dissipation, the effect of the near-source parameter β declines with distance x . Formally, note that $\frac{\partial q}{\partial \beta} < 0$ and $\frac{\partial q}{\partial x} > 0$; air quality decreases with the near-source parameter and increases with distance, respectively. Furthermore, $\frac{\partial^2 q}{\partial x \partial \beta} > 0$; the marginal effect of distance on air quality rises in β . An alternative interpretation is that the negative impact of β gets closer to zero as distance increases. For intuition regarding the partial derivatives, consider the case where firms are hiding their emissions, i.e., are misleading the public about the magnitude of the parameter β . Then, air quality everywhere is worse than the public believes (since $\frac{\partial q}{\partial \beta} < 0$) and air quality is especially worse close to the firm

$$\left(\frac{\partial^2 q}{\partial x \partial \beta} > 0\right).$$

The parameterization of $q(x)$ that we use in Section 2 (Equation 1) is the result of a Taylor expansion of $q(x) = \tilde{\alpha} - \beta \exp(-x/k)$. The three derivatives of interest described above for exponential decay all retain the same sign after linearization.

A3 Theoretical Derivations

A3.1 Derivation of Demand Functions, Simplified Model

In the demand model in Section 2, we assume that utility is Cobb-Douglas in two goods, q and y : $U(q, y) = q^\gamma y^{1-\gamma}$. The first good, q , is unobserved healthiness. It is a function of observable distance x to a point source: $q = \alpha_0 - \alpha_1\beta + \beta x$. When households are fully informed, they know the true α_0 , α_1 , and β parameters. Under limited information, they misperceive the β parameter. The second good, y , is the other (i.e., numeraire) good, unrelated to distance x to the point source.

The individual has the following maximization problem, as stated in Section 2:

$$\max_{x,y} U(q(x), y) \quad s.t. \quad px + y = m$$

The first-order conditions that define the optimal bundle (λ^*, x^*, y^*) are as follows:

$$\begin{aligned} m - px - y &= 0 \\ \gamma q^{\gamma-1} y^{1-\gamma} \frac{\partial q^*}{\partial x^*} - \lambda p &= 0 \\ (1 - \gamma) q^\gamma y^{-\gamma} - \lambda &= 0 \end{aligned}$$

Taking the second and third conditions above, we rearrange them so that the terms containing λ are on the right-hand side. We then divide the second condition by the third and rearrange terms to obtain

$$\frac{q^*}{y^*} = \frac{1}{p} \cdot \frac{\gamma}{1 - \gamma} \cdot \frac{\partial q^*}{\partial x^*}$$

Note that we can express q^* as a function of x^* , and that $\frac{\partial q^*}{\partial x^*} = \beta$. Substituting for y^* using the first first-order condition, we find the optimal, full-information choice of distance:

$$x^* = \frac{\gamma m}{p} - \frac{(1 - \gamma)(\alpha_0 - \alpha_1\beta)}{\beta}$$

Subbing this back into $q(x)$ yields

$$q^* = \alpha_0 - \alpha_1\beta + \beta \frac{\gamma m}{p} + \frac{\beta(\gamma - 1)(\alpha_0 - \alpha_1\beta)}{\beta}$$

Substituting x^* into the budget constraint, we can also solve for y^* :

$$y^* = (1 - \gamma)m + \frac{p(1 - \gamma)(\alpha_0 - \alpha_1\beta)}{\beta}$$

To determine the sign of $\frac{\partial q^*}{\partial m}$, we can differentiate the equation for x^* with respect to m and the equation for q^* with respect to x^* (alternatively, we could differentiate q^* directly with respect to m):

$$\frac{\partial q^*}{\partial m} = \frac{\partial q^*}{\partial x^*} \frac{\partial x^*}{\partial m} = \frac{\gamma}{p} \beta > 0$$

To check that we are at an interior solution, we calculate the bordered Hessian:

$$D^2 \mathcal{L}(\lambda, x, y) = \begin{pmatrix} 0 & -p & -1 \\ -p & \gamma(\gamma - 1)q^{\gamma-2}y^{1-\gamma}\beta^2 & \gamma(1 - \gamma)q^{\gamma-1}y^{-\gamma}\beta \\ -1 & (1 - \gamma)\gamma q^{\gamma-1}y^{-\gamma}\beta & (1 - \gamma)(-\gamma)q^\gamma y^{-\gamma-1} \end{pmatrix}$$

The determinant of this is:

$$\det(D^2 \mathcal{L}(\lambda, x, y)) = p^2(1 - \gamma)\gamma q^\gamma y^{-\gamma-1} + 2p\gamma(1 - \gamma)q^{\gamma-1}y^{-\gamma}\beta + \gamma(1 - \gamma)q^{\gamma-2}y^{1-\gamma}\beta^2$$

Each of these three terms is positive, so the second order conditions are satisfied, and we are at an interior solution.

A3.2 Proof: Low-Income Households Experience A Greater Amount of Hidden Pollution, Simplified Model

The household chooses $x(\beta_0)$ believing that air quality is a function of distance x and the exogenous parameter β_0 . However, true air quality is a function of the exogenous parameter β_1 . As such, we have the following expression for the level of pollution the household believes it experiences:

$$q(x(\beta_0), \beta_0) = \alpha_0 - \alpha_1\beta_0 + \beta_0(x(\beta_0))$$

In contrast, the level of pollution the household actually experiences is

$$q(x(\beta_0), \beta_1) = \alpha_0 - \alpha_1\beta_1 + \beta_1(x(\beta_0))$$

The difference between these is

$$q(x(\beta_0), \beta_1) - q(x(\beta_0), \beta_0) = -\alpha_1(\beta_1 - \beta_0) + (x(\beta_0))(\beta_1 - \beta_0) = (x(\beta_0) - \alpha_1)(\beta_1 - \beta_0)$$

The first term, $(x(\beta_0) - \alpha_1)$, is negative (see footnote 16 in the main text). The second term, $(\beta_1 - \beta_0)$, is positive. The full difference is therefore negative: the household experiences worse air quality than it believes.

The derivative of this difference with respect to income is:

$$\frac{d(q(x(\beta_0), \beta_1) - q(x(\beta_0), \beta_0))}{dm} = (\beta_1 - \beta_0)\frac{\gamma}{p} > 0$$

Thus, every household experiences worse air quality than it believes, but the magnitude of this experienced air quality deficit drops in income. In other words, low-income households experience more “hidden pollution.”

A3.3 Proof: Low-Income Households Experience A Greater Utility Loss, Simplified Model

We wish to compare utility at the optimum – that is, when the household is fully informed and therefore selects the bundle (q^*, y^*) – with the utility experienced when the household misperceives pollution exposure and selects the bundle (q^\dagger, y^\dagger) :

$$\Delta U = ((q^*)^\gamma (y^*)^{1-\gamma}) - ((q^\dagger)^\gamma (y^\dagger)^{1-\gamma})$$

First, we re-write this as:

$$\Delta U = \left(\frac{q^*}{y^*}\right)^\gamma y^* - \left(\frac{q^\dagger}{y^\dagger}\right)^\gamma y^\dagger$$

We then take the total derivative with respect to income:

$$\frac{d\Delta U}{dm} = \gamma \left(\frac{q^*}{y^*}\right)^{\gamma-1} \frac{\partial \left(\frac{q^*}{y^*}\right)}{\partial m} y^* + \left(\frac{q^*}{y^*}\right)^\gamma \frac{\partial y^*}{\partial m} - \gamma \left(\frac{q^\dagger}{y^\dagger}\right)^{\gamma-1} \frac{\partial \left(\frac{q^\dagger}{y^\dagger}\right)}{\partial m} y^\dagger - \left(\frac{q^\dagger}{y^\dagger}\right)^\gamma \frac{\partial y^\dagger}{\partial m}$$

The first term in the $\frac{d\Delta U}{dm}$ expression drops out, because $\frac{q^*}{y^*}$ does not depend on income m (see its expression in Appendix Section A3.1). Note, however, that the third term remains; the equation for $\frac{q^*}{y^*}$ does not apply to $\frac{q^\dagger}{y^\dagger}$ because the bundle (q^\dagger, y^\dagger) is away from the optimum.

To make further progress in signing $\frac{d\Delta U}{dm}$, the following partial derivatives are useful:³¹

$$\frac{\partial y^*}{\partial m} = \frac{\partial y^\dagger}{\partial m} = 1 - \gamma$$

$$\frac{\partial q^\dagger}{\partial m} = \frac{\beta_1 \gamma}{p}$$

We differentiate $\left(\frac{q^\dagger}{y^\dagger}\right)$ with respect to m and find:

$$\begin{aligned} \frac{\partial \left(\frac{q^\dagger}{y^\dagger}\right)}{\partial m} &= -q^\dagger (y^\dagger)^{-2} \frac{\partial y^\dagger}{\partial m} + (y^\dagger)^{-1} \frac{\partial q^\dagger}{\partial m} \\ &= -\frac{q^\dagger}{y^\dagger} \cdot \frac{1}{y^\dagger} \cdot (1 - \gamma) + \frac{1}{y^\dagger} \cdot \frac{\beta_1 \gamma}{p} \\ &= \frac{1}{y^\dagger} \left(-\left(\frac{q^\dagger}{y^\dagger}\right) (1 - \gamma) + \frac{\beta_1 \gamma}{p} \right) \end{aligned}$$

³¹The derivative $\frac{\partial q^\dagger}{\partial m}$ depends on β_1 because q^\dagger refers to experienced air quality, $q(x^\dagger(\beta_0), \beta_1) = \alpha_0 - \alpha_1 \beta_1 + \beta_1 \left(\frac{\gamma m}{p} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_0)}{\beta_0} \right)$.

Substituting these in and re-arranging, we have:

$$\begin{aligned}
\frac{d\Delta U}{dm} &= \left(\left(\frac{q^*}{y^*} \right)^\gamma - \left(\frac{q^\dagger}{y^\dagger} \right)^\gamma \right) (1 - \gamma) - \gamma \left(\frac{q^\dagger}{y^\dagger} \right)^{\gamma-1} \frac{\partial \left(\frac{q^\dagger}{y^\dagger} \right)}{\partial m} y^\dagger \\
&= \left(\left(\frac{q^*}{y^*} \right)^\gamma - \left(\frac{q^\dagger}{y^\dagger} \right)^\gamma \right) (1 - \gamma) - \gamma \left(\frac{q^\dagger}{y^\dagger} \right)^{\gamma-1} \frac{1}{y^\dagger} \left(- \left(\frac{q^\dagger}{y^\dagger} \right) (1 - \gamma) + \frac{\beta_1 \gamma}{p} \right) y^\dagger \\
&= (1 - \gamma) \left(\frac{q^*}{y^*} \right)^\gamma - (1 - \gamma) \left(\frac{q^\dagger}{y^\dagger} \right)^\gamma + \gamma (1 - \gamma) \left(\frac{q^\dagger}{y^\dagger} \right)^\gamma - \frac{\gamma^2 \beta_1}{p} \left(\frac{q^\dagger}{y^\dagger} \right)^{\gamma-1} \\
&= (1 - \gamma) \left(\frac{q^*}{y^*} \right)^\gamma - (1 - \gamma)^2 \left(\frac{q^\dagger}{y^\dagger} \right)^\gamma - \frac{\gamma^2 \beta_1}{p} \left(\frac{q^\dagger}{y^\dagger} \right)^{\gamma-1}
\end{aligned}$$

From the FOCs, we have that $\beta_1 \frac{\gamma}{1-\gamma} \frac{1}{p} = \frac{q^*}{y^*}$, so:

$$\begin{aligned}
\frac{d\Delta U}{dm} &= (1 - \gamma) \left(\frac{q^*}{y^*} \right)^\gamma - (1 - \gamma)^2 \left(\frac{q^\dagger}{y^\dagger} \right)^\gamma - \gamma (1 - \gamma) \left(\frac{q^*}{y^*} \right) \left(\frac{q^\dagger}{y^\dagger} \right)^{\gamma-1} \\
&= (1 - \gamma) \left(\left(\frac{q^*}{y^*} \right)^\gamma - (1 - \gamma) \left(\frac{q^\dagger}{y^\dagger} \right)^\gamma - \gamma \left(\frac{q^*}{y^*} \right) \left(\frac{q^\dagger}{y^\dagger} \right)^{\gamma-1} \right) \\
&= (1 - \gamma) \left(\left(\frac{q^*}{y^*} \right)^\gamma - \left(\frac{q^*}{y^*} \right)^\gamma \left((1 - \gamma) R^\gamma + \gamma R^{\gamma-1} \right) \right)
\end{aligned}$$

where $R = \frac{(q^\dagger/y^\dagger)}{(q^*/y^*)} < 1$, since $q^\dagger < q^*$ and $y^\dagger > y^*$.

Our remaining task is to evaluate whether $((1 - \gamma) R^\gamma + \gamma R^{\gamma-1})$ is greater than or less than 1. To do so, first consider the situation in which $R = 1$. Then

$$((1 - \gamma) R^\gamma + \gamma R^{\gamma-1}) = 1 - \gamma + \gamma = 1$$

In our setting, $0 < R < 1$. To find whether $((1 - \gamma) R^\gamma + \gamma R^{\gamma-1})$ is greater than or less than 1, we calculate its derivate with respect to R :

$$\begin{aligned}
\frac{d[(1 - \gamma) R^\gamma + \gamma R^{\gamma-1}]}{dR} &= \gamma (1 - \gamma) R^{\gamma-1} + \gamma (\gamma - 1) R^{\gamma-2} \\
&= \gamma (1 - \gamma) R^{\gamma-1} - \gamma (1 - \gamma) R^{\gamma-2} \\
&= \gamma (1 - \gamma) (R^{\gamma-1} - R^{\gamma-2})
\end{aligned}$$

This derivative is negative: both γ and $1 - \gamma$ are positive, but the third term is negative. Thus, $((1 - \gamma) R^\gamma + \gamma R^{\gamma-1}) > 1$ when $R < 1$. In turn, $\left(\left(\frac{q^*}{y^*} \right)^\gamma - \left(\frac{q^*}{y^*} \right)^\gamma \left((1 - \gamma) R^\gamma + \gamma R^{\gamma-1} \right) \right) < 0$, which ensures that $\frac{d\Delta U}{dm} < 0$.

A3.4 Proof: Low-Income Households Experience A Greater Change in Consumer Surplus, Simplified Model

We argue in the main text that one could evaluate whether the change in consumer surplus from having full information is increasing or decreasing in income. Frequently the researcher does not observe the full utility function, but is able to estimate demand and thus consumer surplus. It is easiest to evaluate consumer surplus in our simplified Cobb-Douglas model by considering the demand for distance x from the point source. The consumer surplus gain associated with full information can be evaluated as the area under the full-information inverse demand curve over the range $(x^*(p), x^\dagger(p))$, minus the change in expenditure, as in Figure 2. The outer grey demand curve comes from the true underlying utility function and thus is the appropriate demand curve to use for evaluating consumer surplus.

To derive an analytic expression for this change in consumer surplus using the model we present in the main text, we take the integral under the inverse demand expression and subtract off the change in expenditure, as follows:

$$\Delta\text{CS} = \left(\int_{p^*(x^*)}^{p^*(x^\dagger)} \frac{\gamma m}{p} - \frac{(1-\gamma)(\alpha_0 - \alpha_1\beta_1)}{\beta_1} dp \right) - (p^*(x^\dagger) - p^*(x^*)) \cdot x^\dagger,$$

where $p^*(x^*)$ denotes the actual market price of distance x and $p^*(x^\dagger)$ denotes the implicit price that would have yielded x^\dagger in the full information case. This is equal to:

$$\begin{aligned} \Delta\text{CS} &= \gamma m \ln(p^*(x^\dagger)) - \frac{(1-\gamma)(\alpha_0 - \alpha_1\beta_1)}{\beta_1} \cdot (p^*(x^\dagger)) \\ &\quad - \gamma m \ln(p^*(x^*)) + \frac{(1-\gamma)(\alpha_0 - \alpha_1\beta_1)}{\beta_1} \cdot (p^*(x^*)) \\ &\quad - (p^*(x^\dagger) - p^*(x^*)) \cdot x^\dagger \end{aligned}$$

We are interested in how the change in consumer surplus that would result from full information varies with income, so we take the derivative of ΔCS with respect to income:

$$\begin{aligned} \frac{\partial \Delta\text{CS}}{\partial m} &= \frac{\gamma m}{p^\dagger} \frac{\partial p^\dagger}{\partial m} + \gamma \ln p^\dagger - \frac{(1-\gamma)(\alpha_0 - \alpha_1\beta_1)}{\beta_1} \frac{\partial p^\dagger}{\partial m} \\ &\quad - \frac{\gamma m}{p^*} \frac{\partial p^*}{\partial m} - \gamma \ln p^* + \frac{(1-\gamma)(\alpha_0 - \alpha_1\beta_1)}{\beta_1} \frac{\partial p^*}{\partial m} \\ &\quad - \frac{\partial x^\dagger}{\partial m} (p^\dagger - p^*) - x^\dagger \left(\frac{\partial p^\dagger}{\partial m} - \frac{\partial p^*}{\partial m} \right) \end{aligned}$$

Noting that the true price p does not change with income, this simplifies to:

$$\begin{aligned}\frac{\partial \Delta \text{CS}}{\partial m} &= \frac{\gamma m}{p^\dagger} \frac{\partial p^\dagger}{\partial m} + \gamma \ln p^\dagger - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_1)}{\beta_1} \frac{\partial p^\dagger}{\partial m} \\ &\quad - \gamma \ln p^* - \frac{\partial x^\dagger}{\partial m} (p^\dagger - p^*) - x^\dagger \left(\frac{\partial p^\dagger}{\partial m} \right)\end{aligned}$$

Re-arrange to:

$$\begin{aligned}\frac{\partial \Delta \text{CS}}{\partial m} &= \gamma (\ln p^\dagger - \ln p^*) + (p^* - p^\dagger) \frac{\partial x^\dagger}{\partial m} \\ &\quad + \left(\frac{\gamma m}{p^\dagger} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_1)}{\beta_1} - x^\dagger \right) \frac{\partial p^\dagger}{\partial m}\end{aligned}$$

Recall that $\frac{\partial x^\dagger}{\partial m} = \frac{\gamma}{p}$, so:

$$\begin{aligned}\frac{\partial \Delta \text{CS}}{\partial m} &= \gamma (\ln p^\dagger - \ln p^*) + (p^* - p^\dagger) \frac{\gamma}{p^*} \\ &\quad + \left(\frac{\gamma m}{p^\dagger} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_1)}{\beta_1} - x^\dagger \right) \frac{\partial p^\dagger}{\partial m}\end{aligned}$$

Next, note that p^\dagger is the price that yields x^\dagger along the true demand curve, i.e., $x^\dagger = \left(\frac{\gamma m}{p^\dagger} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_1)}{\beta_1} \right)$. Therefore the last term in the $\frac{\partial \Delta \text{CS}}{\partial m}$ expression drops out, and we are left with:

$$\frac{\partial \Delta \text{CS}}{\partial m} = \gamma (\ln p^\dagger - \ln p^*) + (p^* - p^\dagger) \frac{\gamma}{p^*}$$

Recall that $p^\dagger > p^*$, so $(\ln p^\dagger - \ln p^*)$ is positive whereas $\frac{p^* - p^\dagger}{p^*}$ is negative. However, $(\ln p^\dagger - \ln p^*)$ is smaller in absolute value,³² leaving the entire expression $\gamma (\ln p^\dagger - \ln p^*) + (p^* - p^\dagger) \frac{\gamma}{p^*}$ negative.

Then $\frac{\partial \Delta \text{CS}}{\partial m}$ is negative, so EJ Metric 3 holds for Cobb-Douglas preferences with linear dissipation and linear pricing.

³²Denote $r = \frac{p^\dagger}{p^*}$. Then we are evaluating simply $r - 1$ compared to $\ln r$. Since $r - 1 > \ln r$, we have that $\frac{(p^\dagger - p^*)}{p^*} > \ln p^\dagger - \ln p^*$. Note it is easy to see graphically that $r - 1 > \ln r$. More formally, note that $\ln r = r - 1$ for $r = 1$. Then note that $\frac{d(\ln r)}{dr} < \frac{d(r-1)}{dr}$ for all $r > 1$, implying that $\ln r < r - 1$ for all $r > 1$. Also, $\frac{d(\ln r)}{dr} > \frac{d(r-1)}{dr}$ for all $r < 1$, implying that $\ln r < r - 1$ for all $r < 1$. Therefore $\ln r \leq r - 1$ for all r . In the case we are considering, $p^\dagger \neq p^*$, so the inequality is strict.

A3.5 Proof: Implicit Counterfactual Price is Decreasing in Income

In the main text, we discuss how low-income households experience a greater change in consumer surplus in the simplified model (Cobb-Douglas preferences, linear dissipation, fixed prices). Appendix Section A3.4 gives a formal proof. The main text simply gives intuition, and that intuition relies on the height of the consumer surplus triangle in Figure 2. Specifically, we rely on the fact that p^\dagger (the price that would have yielded the uninformed quantity x^\dagger in the full information case) decreases with income m . In this Appendix, we prove mathematically that $\frac{\partial p^\dagger}{\partial m} < 0$.

First, define p^\dagger to be the price that would yield x^\dagger along the full information demand curve:

$$x^\dagger = \frac{\gamma m}{p^\dagger} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_1)}{\beta_1}$$

And recall that the uninformed demand curve for x^\dagger as a function of the true price p is given by:

$$x^\dagger = \frac{\gamma m}{p} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_0)}{\beta_0}$$

Therefore by substitution:

$$\frac{\gamma m}{p} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_0)}{\beta_0} = \frac{\gamma m}{p^\dagger} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_1)}{\beta_1}$$

Rearranging:

$$\frac{1}{p^\dagger} = \frac{1}{p} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_0)}{\beta_0 \gamma m} + \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_1)}{\beta_1 \gamma m}$$

Simplifying:

$$\frac{1}{p^\dagger} = \frac{1}{p} + \frac{(1-\gamma)\alpha_0(\beta_0 - \beta_1)}{\beta_0 \beta_1 \gamma} \frac{1}{m}$$

Re-write this as:

$$\frac{1}{p^\dagger} = A + \frac{B}{m} = \frac{Am + B}{m} \implies p^\dagger = \frac{m}{Am + B}$$

where $A = \frac{1}{p} > 0$ and $B = \frac{(1-\gamma)\alpha_0(\beta_0 - \beta_1)}{\beta_0 \beta_1 \gamma}$. Recall that $\beta_0 < \beta_1$, so $B = \frac{(1-\gamma)\alpha_0(\beta_0 - \beta_1)}{\beta_0 \beta_1 \gamma} < 0$.

Taking the partial derivative:

$$\frac{\partial p^\dagger}{\partial m} = \frac{B}{(Am + B)^2} < 0$$

The derivative of p^\dagger with respect to income is negative.

A3.6 Equilibrium under Pure Exchange with Continuous Choice of Distance

Here we maintain the modeling assumptions from Section 2 in the main text but allow the price of distance to vary endogenously. Specifically, we now consider a pure exchange economy with two individuals. We assume a fixed total supply of distance X to be divided up between the two individuals in a continuous manner. While this clearly does not map directly into a real-world housing scenario, it can help ground intuition about how prices might behave in general equilibrium and what that might imply for the Cobb-Douglas scenario given above.

The numeraire good also has fixed total supply (Y). We continue to assume that the two individuals have identical preferences and access to information and differ only in their initial endowments. We also continue to assume that pollution decay can be approximated with a linear functional form. Finally, we maintain our assumption that preferences are Cobb-Douglas.

Recall that this implies that individual i 's demand for distance is given by:

$$x_i = \frac{\gamma m_i}{p} - \frac{(1 - \gamma)(\alpha_0 - \alpha_1 \beta)}{\beta}$$

where m is income (i.e., the value of the initial allocation), p is the price of good x , the numeraire good y has a price of 1, γ is the Cobb-Douglas parameter, and the exogenous parameters $(\alpha_0, \alpha_1, \beta)$ relate distance x to air quality q .

As such, EJ Metric 1 again holds: distance is increasing in m , and since air quality increases with distance, whoever has the greater value of the initial allocation obtains better air quality in equilibrium. Thus EJ Metric 1 holds simply because air quality is a normal good. Furthermore, since the wedge between true and perceived air quality is decreasing in distance (because of the pollution dissipation process), EJ Metric 2 again holds.

To check whether EJ Metric 3 holds, we must evaluate utility for each individual in the limited-information equilibrium versus in the full-information equilibrium. Suppose that individual 1 begins with initial allocation (x_1^0, y_1^0) and individual 2 begins with initial allocation (x_2^0, y_2^0) . Denote the equilibrium bundles under limited information $(x_1^\dagger, y_1^\dagger)$ and $(x_2^\dagger, y_2^\dagger)$. Under limited information, the β parameter is believed by all agents to be at level β_0 (in reality, it is at level $\beta_1 > \beta_0$). In equilibrium, p^\dagger is such that total demand across the two consumers is equal to total supply:

$$x_1^\dagger + x_2^\dagger = x_1^0 + x_2^0$$

$$y_1^\dagger + y_2^\dagger = y_1^0 + y_2^0$$

Substituting in the expressions for x_i and m_i , we have:

$$\frac{\gamma(x_1^0 p^\dagger + y_1^0)}{p^\dagger} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_0)}{\beta_0} + \frac{\gamma(x_2^0 p^\dagger + y_2^0)}{p^\dagger} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_0)}{\beta_0} = x_1^0 + x_2^0$$

Re-arranging to solve for the equilibrium price p^\dagger under limited information:

$$p^\dagger = \frac{\gamma(y_1^0 + y_2^0)}{(1-\gamma)(x_1^0 + x_2^0) + 2 \left(\frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_0)}{\beta_0} \right)}$$

Denote equilibrium price in the full information scenario as p^* , given by:

$$p^* = \frac{\gamma(y_1^0 + y_2^0)}{(1-\gamma)(x_1^0 + x_2^0) + 2 \left(\frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_1)}{\beta_1} \right)}$$

We wish to compare utility at the optimum – that is, when the household is fully informed and therefore selects the bundle (q^*, y^*) – with the utility experienced when household misperceives pollution exposure and selects the bundle (q^\dagger, y^\dagger) :

$$\Delta U = ((q^*)^\gamma (y^*)^{1-\gamma}) - ((q^\dagger)^\gamma (y^\dagger)^{1-\gamma})$$

This expression is identical to the one in Appendix Section A3.3, but note that now the two bundles (q^*, y^*) and (q^\dagger, y^\dagger) are at different equilibrium prices p^* and p^\dagger . We re-write this as:

$$\Delta U = \left(\frac{q^*}{y^*} \right)^\gamma y^* - \left(\frac{q^\dagger}{y^\dagger} \right)^\gamma y^\dagger$$

We want to evaluate whether this change in utility is larger for low-income or high-income individuals. To do so, we take the derivative with respect to the initial endowment of the numeraire good y , holding constant the total supply of that good, $Y = y_1^0 + y_2^0$. We define “low-income” and “high-income” this way so as to separate out effects of the initial endowment as opposed to the impact of information on total wealth (which would include the price effects of the initial endowment). Taking the total derivative with respect to y^0 :

$$\frac{d\Delta U}{dy^0} = \gamma \left(\frac{q^*}{y^*} \right)^{\gamma-1} \frac{\partial \left(\frac{q^*}{y^*} \right)}{\partial y^0} y^* + \left(\frac{q^*}{y^*} \right)^\gamma \frac{\partial y^*}{\partial y^0} - \gamma \left(\frac{q^\dagger}{y^\dagger} \right)^{\gamma-1} \frac{\partial \left(\frac{q^\dagger}{y^\dagger} \right)}{\partial y^0} y^\dagger - \left(\frac{q^\dagger}{y^\dagger} \right)^\gamma \frac{\partial y^\dagger}{\partial y^0}$$

The first term in the $\frac{d\Delta U}{dy^0}$ expression drops out, because $\frac{q^*}{y^*}$ does not depend on the individual’s initial endowment y^0 (see its expression in Section A3.1). Note, however, that the third term remains; the equation for $\frac{q^*}{y^*}$ does not apply to $\frac{q^\dagger}{y^\dagger}$ because the bundle (q^\dagger, y^\dagger) is away from

the optimum.³³

To make further progress in signing $\frac{d\Delta U}{dy^0}$, the following partial derivatives are useful:³⁴

$$\frac{\partial y^*}{\partial y^0} = \frac{\partial y^\dagger}{\partial y^0} = 1 - \gamma$$

$$\frac{\partial q^\dagger}{\partial y^0} = \frac{\beta_1 \gamma}{p^\dagger}$$

We differentiate $\left(\frac{q^\dagger}{y^\dagger}\right)$ with respect to y^0 and find:

$$\begin{aligned} \frac{\partial \left(\frac{q^\dagger}{y^\dagger}\right)}{\partial y^0} &= -q^\dagger (y^\dagger)^{-2} \frac{\partial y^\dagger}{\partial y^0} + (y^\dagger)^{-1} \frac{\partial q^\dagger}{\partial y^0} \\ &= -\frac{q^\dagger}{y^\dagger} \cdot \frac{1}{y^\dagger} \cdot (1 - \gamma) + \frac{1}{y^\dagger} \cdot \frac{\beta_1 \gamma}{p^\dagger} \\ &= \frac{1}{y^\dagger} \left(-\left(\frac{q^\dagger}{y^\dagger}\right) (1 - \gamma) + \frac{\beta_1 \gamma}{p^\dagger} \right) \end{aligned}$$

This expression is identical to the one in Section A3.3, but where the equilibrium price is equal to p^\dagger . Substituting these in and re-arranging, we have:

$$\begin{aligned} \frac{d\Delta U}{dy^0} &= \left(\left(\frac{q^*}{y^*}\right)^\gamma - \left(\frac{q^\dagger}{y^\dagger}\right)^\gamma \right) (1 - \gamma) - \gamma \left(\frac{q^\dagger}{y^\dagger}\right)^{\gamma-1} \frac{\partial \left(\frac{q^\dagger}{y^\dagger}\right)}{\partial y_i^0} y^\dagger \\ &= \left(\left(\frac{q^*}{y^*}\right)^\gamma - \left(\frac{q^\dagger}{y^\dagger}\right)^\gamma \right) (1 - \gamma) - \gamma \left(\frac{q^\dagger}{y^\dagger}\right)^{\gamma-1} \frac{1}{y^\dagger} \left(-\left(\frac{q^\dagger}{y^\dagger}\right) (1 - \gamma) + \frac{\beta_1 \gamma}{p^\dagger} \right) y^\dagger \\ &= (1 - \gamma) \left(\frac{q^*}{y^*}\right)^\gamma - (1 - \gamma) \left(\frac{q^\dagger}{y^\dagger}\right)^\gamma + \gamma (1 - \gamma) \left(\frac{q^\dagger}{y^\dagger}\right)^\gamma - \frac{\gamma^2 \beta_1}{p^\dagger} \left(\frac{q^\dagger}{y^\dagger}\right)^{\gamma-1} \\ &= (1 - \gamma) \left(\frac{q^*}{y^*}\right)^\gamma - (1 - \gamma)^2 \left(\frac{q^\dagger}{y^\dagger}\right)^\gamma - \frac{\gamma^2 \beta_1}{p^\dagger} \left(\frac{q^\dagger}{y^\dagger}\right)^{\gamma-1} \end{aligned}$$

From the FOCs, we have that $\frac{q^*}{y^*} = \beta_1 \frac{\gamma}{1-\gamma} \frac{1}{p^*}$. Rearranging, $\gamma(1 - \gamma) \frac{p^*}{p^\dagger} \frac{q^*}{y^*} = \beta_1 \gamma^2 \frac{1}{p^\dagger}$ (this is different from the expression in Section A3.3, for which p was constant and the expression

³³Recall that here q^\dagger refers to experienced rather than perceived q .

³⁴The derivative $\frac{\partial q^\dagger}{\partial y^0}$ depends on β_1 because q^\dagger refers to experienced air quality, $q(x^\dagger(\beta_0), \beta_1) = \alpha_0 - \alpha_1 \beta_1 + \beta_1 \left(\frac{\gamma y^0}{p} - \frac{(1-\gamma)(\alpha_0 - \alpha_1 \beta_0)}{\beta_0} \right)$.

simplified). Substituting it in, we have:

$$\begin{aligned}
\frac{d\Delta U}{dy^0} &= (1 - \gamma) \left(\frac{q^*}{y^*}\right)^\gamma - (1 - \gamma)^2 \left(\frac{q^\dagger}{y^\dagger}\right)^\gamma - \gamma(1 - \gamma) \left(\frac{p^*}{p^\dagger}\right) \left(\frac{q^*}{y^*}\right) \left(\frac{q^\dagger}{y^\dagger}\right)^{\gamma-1} \\
&= (1 - \gamma) \left(\left(\frac{q^*}{y^*}\right)^\gamma - (1 - \gamma) \left(\frac{q^\dagger}{y^\dagger}\right)^\gamma - \gamma \left(\frac{p^*}{p^\dagger}\right) \left(\frac{q^*}{y^*}\right) \left(\frac{q^\dagger}{y^\dagger}\right)^{\gamma-1} \right) \\
&= (1 - \gamma) \left(\left(\frac{q^*}{y^*}\right)^\gamma - \left(\frac{q^*}{y^*}\right)^\gamma \left((1 - \gamma) R^\gamma + \gamma \left(\frac{p^*}{p^\dagger}\right) R^{\gamma-1} \right) \right)
\end{aligned}$$

where $R = \frac{(q^\dagger/y^\dagger)}{(q^*/y^*)}$. This is similar to the expression in Section A3.3, but with the new term $\left(\frac{p^*}{p^\dagger}\right)$.

Our task is to evaluate whether the expression $\left((1 - \gamma) R^\gamma + \gamma \left(\frac{p^*}{p^\dagger}\right) R^{\gamma-1} \right)$ is greater than or less than one, because this will tell us the sign of $\frac{d\Delta U}{dy^0}$. The proof that follows is similar to the one in Section A3.3, but with a few extra details that were not necessary in the simplified case where the price is exogenous.

Consider the case where $R = \frac{p^*}{p^\dagger}$. Then the expression $\left((1 - \gamma) R^\gamma + \gamma \left(\frac{p^*}{p^\dagger}\right) R^{\gamma-1} \right)$ simplifies to R^γ . Note that $\frac{p^*}{p^\dagger} > 1$. Mathematically,

$$\frac{p^*}{p^\dagger} = \left(\frac{\gamma(y_1^0 + y_2^0)}{(1 - \gamma)(x_1^0 + x_2^0) + 2 \left(\frac{(1-\gamma)(\alpha_0 - \alpha_1\beta_1)}{\beta_1}\right)} \right) \left(\frac{(1 - \gamma)(x_1^0 + x_2^0) + 2 \left(\frac{(1-\gamma)(\alpha_0 - \alpha_1\beta_0)}{\beta_0}\right)}{\gamma(y_1^0 + y_2^0)} \right)$$

Simplifying,

$$\frac{p^*}{p^\dagger} = \frac{(1 - \gamma)(x_1^0 + x_2^0) + 2 \frac{(1-\gamma)(\alpha_0 - \alpha_1\beta_0)}{\beta_0}}{(1 - \gamma)(x_1^0 + x_2^0) + 2 \frac{(1-\gamma)(\alpha_0 - \alpha_1\beta_1)}{\beta_1}}$$

Since $\beta_0 < \beta_1$, $\frac{(1-\gamma)(\alpha_0 - \alpha_1\beta_0)}{\beta_0} > \frac{(1-\gamma)(\alpha_0 - \alpha_1\beta_1)}{\beta_1}$. Therefore $\frac{p^*}{p^\dagger} > 1$. Therefore $R^\gamma = \left(\frac{p^*}{p^\dagger}\right)^\gamma > 1$. Therefore $\frac{d\Delta U}{dy^0} < 0$, so EJ Metric 3 holds: low-income households experience greater deadweight loss from limited information.

Next consider the case where $R > \frac{p^*}{p^\dagger}$. Take the derivative with respect to R of the entire expression $\left((1 - \gamma) R^\gamma + \gamma \left(\frac{p^*}{p^\dagger}\right) R^{\gamma-1} \right)$. This derivative is equal to: $\gamma(1-\gamma) \left(R^{\gamma-1} - \left(\frac{p^*}{p^\dagger}\right) R^{\gamma-2} \right)$. Since $\frac{p^*}{p^\dagger} > 1$ and $R > \frac{p^*}{p^\dagger}$, the derivative is positive. Thus $\left((1 - \gamma) R^\gamma + \gamma \left(\frac{p^*}{p^\dagger}\right) R^{\gamma-1} \right) > 1$. Therefore, $\frac{d\Delta U}{dy^0} < 0$ and EJ Metric 3 holds.

Next consider the case where $R < \frac{p^*}{p^\dagger}$. Take the derivative with respect to R of the entire expression $\left((1 - \gamma) R^\gamma + \gamma \left(\frac{p^*}{p^\dagger}\right) R^{\gamma-1} \right)$. This derivative is equal to: $\gamma(1-\gamma) \left(R^{\gamma-1} - \left(\frac{p^*}{p^\dagger}\right) R^{\gamma-2} \right)$. Since $\frac{p^*}{p^\dagger} > 1$ and $R < \frac{p^*}{p^\dagger}$, the derivative is negative. Thus the expression $\left((1 - \gamma) R^\gamma + \gamma \left(\frac{p^*}{p^\dagger}\right) R^{\gamma-1} \right) >$

1. Therefore, $\frac{d\Delta U}{dy^b} < 0$ and EJ Metric 3 holds.

A3.7 Equilibrium under Pure Exchange with Houses at Fixed Distance

Rather than modeling the choice of two houses at fixed distances from a point source of pollution, we can instead consider a setting with two houses at fixed locations: one house H_H with high air quality, and one house H_L with low air quality. As before, we assume there are no other differences between the two houses. There are also two consumers, individual 1 and individual 2. As before, we assume the two individuals are identical in their preferences and their access to information. All non-housing goods are aggregated into a numeraire good y with price 1 and with total supply Y . Trade can occur via a transfer of size p from one individual to another.

Whether or not a mutually beneficial trade exists depends, in part, on the initial allocation. We first assume that the same individual holds the higher quality house H_H and a larger quantity of good y . In that case, this “high-income” individual will only accept a trade if:

$$U(H_L, y_H + p) > U(H_H, y_H)$$

Subtract $U(H_L, y_H)$ from both sides:

$$U(H_L, y_H + p) - U(H_L, y_H) > U(H_H, y_H) - U(H_L, y_H) \quad (\text{A1})$$

The “low-income” individual will only accept a trade if:

$$U(H_H, y_L - p) > U(H_L, y_L)$$

Subtract $U(H_L, y_L - p)$ from both sides:

$$U(H_H, y_L - p) - U(H_L, y_L - p) > U(H_L, y_L) - U(H_L, y_L - p) \quad (\text{A2})$$

Both Equation A1 and Equation A2 must hold in order for a trade to occur.

If U_{Hy} (the cross partial) is non-negative – such as with Cobb-Douglas or additively separable utility – then the right-hand side of Equation A1 is larger than the left-hand side of Equation A2:

$$U(H_H, y_H) - U(H_L, y_H) > U(H_H, y_L - p) - U(H_L, y_L - p)$$

However, the right-hand side of Equation A2 is larger than the left-hand side of Equation A1 because of declining marginal utility (conditional on H_L , p is worth more if you only have

y_L than when you have y_H):

$$U(H_L, y_L) - U(H_L, y_L - p) > U(H_L, y_H + p) - U(H_L, y_H)$$

Therefore, under these conditions, there is no value of p for which Equations A1 and A2 both hold. In general, we expect this to be true if air quality is a normal good.

Given no trade, suppose that it is revealed that a polluter has been hiding emissions. The typical pollution dissipation process described above implies that air quality is worse everywhere than had been believed, and especially worse for the house with lower air quality H_L . Thus, trade will still not occur, by the same logic as before. Furthermore, both households experience lower utility, and the individual owning home H_L experiences an even bigger difference in utility. This is both because the wedge between true and believed air quality is higher for that individual (because of the way pollution dissipates), and because the marginal utility of air quality is higher for that individual (assuming, as is typical, that marginal utility is declining). There is no feasible re-optimization that improves total welfare. But it is the case that the low-income individual experiences greater hidden pollution (i.e., Metric 2 holds), and that the welfare impact of that hidden pollution is larger for the low-income individual (related to Metric 3, albeit without deadweight loss per se, since in equilibrium the allocations do not change).

Now suppose that in the initial allocation, the individual with the larger initial allocation of good y has the lower quality house H_L . We will assume that housing is a small part of the total budget for each individual and accordingly refer to the individual with a higher initial allocation of y as the “high-income” individual. In this case, trade is possible, and we consider the transfer required to induce such a trade. Utility for each individual, with and without trade, is as follows:

- Low-income individual, no trade: $U(H_H, y_L)$
- High-income individual, no trade: $U(H_L, y_H)$
- Low-income individual, with trade: $U(H_L, y_L + p)$
- High-income individual, with trade: $U(H_H, y_H - p)$

Trade will occur if there is a transfer p such that both parties can be made weakly better off: $U(H_L, y_L + p) \geq U(H_H, y_L)$ and $U(H_H, y_H - p) \geq U(H_L, y_H)$. Suppose again that it is revealed that a polluter has been hiding emissions. To simplify the logic, consider the case of additively separable utility. In this case, the transfer p needed to induce trade is larger: the low-income individual requires a greater payment to accept the drop in utility

from moving from H_H to H_L . Furthermore, the high-income individual is willing to make a larger payment to obtain the increase in utility from moving from H_L to H_H . By not knowing about the true level of emissions, the low-income individual has missed out on the full value of the transfer payment p that she would actually require to be weakly better off with trade.

To evaluate welfare, we can consider both the change in utility coming from the housing stock and the change in utility coming from the numeraire good. Both households experience lower utility from housing, and the individual owning home H_L in equilibrium (in this case, the low-income individual) experiences an even bigger difference in utility. This is both because the wedge between true and believed air quality is higher for that individual (due to pollution dissipation), and because the marginal utility of air quality is higher for that individual (due to declining marginal utility). Moreover, the low-income individual is *additionally* worse off from a too-small transfer payment, while the high-income individual is conversely better off for the same reason. Overall then, in this scenario, Metrics 2 and 3 both hold: the low-income individual experiences greater hidden pollution, and a greater utility loss as a result of the information failure.

A3.8 Optimization in the General Model

In the demand model in Section 3, we assume that households gain utility from three goods: salient amenities $s(x)$ that increase with distance to a point source, hidden amenities $q(x)$, and other goods y . Distance to the point source is priced according to some positive hedonic pricing function $p(x)$. The household's optimization problem when unaware of $q(x)$ is:

$$\max_{x,y} U(s(x), y) \quad s.t. \quad p(x) + y = m$$

We assume that $\frac{\partial q}{\partial x} > 0$ and $\frac{\partial s}{\partial x} > 0$ (both amenities increase with distance) and $\frac{\partial p}{\partial x} > 0$ (house prices increase with distance). We also assume that all goods provide positive utility at a declining rate: $U_q > 0$, $U_{qq} < 0$, etc.

The first-order conditions that define the chosen bundle $(\lambda^\dagger, x^\dagger, y^\dagger)$ under limited information are as follows:

$$\begin{aligned} m - p(x) - y &= 0 \\ U_s \frac{\partial s}{\partial x} - \lambda \frac{\partial p}{\partial x} &= 0 \\ U_y - \lambda &= 0 \end{aligned}$$

To check that we are at an interior solution, we calculate the bordered Hessian:

$$D^2 \mathcal{L}(\lambda, x, y) = \begin{pmatrix} 0 & & -\frac{\partial p}{\partial x} & -1 \\ -\frac{\partial p}{\partial x} & U_{ss} \left(\frac{\partial s}{\partial x}\right)^2 + U_s \frac{\partial^2 s}{\partial x^2} - \lambda \frac{\partial^2 p}{\partial x^2} & U_{sy} \frac{\partial s}{\partial x} & \\ -1 & & U_{sy} \frac{\partial s}{\partial x} & U_{yy} \end{pmatrix}$$

The determinant of this is:

$$-\left(\frac{\partial p}{\partial x}\right)^2 U_{yy} + 2\frac{\partial p}{\partial x} U_{sy} \frac{\partial s}{\partial x} - \left(\frac{\partial s}{\partial x}\right)^2 U_{ss} - U_s \frac{\partial^2 s}{\partial x^2} + \lambda \frac{\partial^2 p}{\partial x^2}$$

For this to be positive, it must be the case that the two positive terms $-\left(\frac{\partial p}{\partial x}\right)^2 U_{yy}$ and $-\left(\frac{\partial s}{\partial x}\right)^2 U_{ss}$ are not swamped by any negative terms in the rest of the expression (the remaining three terms have ambiguous signs, depending on the signs of U_{sy} , $\frac{\partial^2 s}{\partial x^2}$, and $\frac{\partial^2 p}{\partial x^2}$).

Assuming we are not at a corner solution, we can use comparative statics to find the sign

of the derivative of distance with respect to income, at the optimum:

$$\begin{pmatrix} \frac{\partial \lambda^\dagger}{\partial m} \\ \frac{\partial x^\dagger}{\partial m} \\ \frac{\partial y^\dagger}{\partial m} \end{pmatrix} = \begin{pmatrix} 0 & -\frac{\partial p}{\partial x} & -1 \\ U_{ss} \left(\frac{\partial s}{\partial x}\right)^2 + U_s \frac{\partial^2 s}{\partial x^2} - \lambda \frac{\partial^2 p}{\partial x^2} & U_{sy} \frac{\partial s}{\partial x} & U_{yy} \\ -1 & U_{sy} \frac{\partial s}{\partial x} & U_{yy} \end{pmatrix}^{-1} \cdot \begin{pmatrix} -1 \\ 0 \\ 0 \end{pmatrix}$$

By Cramer's Rule, we have:

$$\frac{\partial x^\dagger}{\partial m} = \frac{\begin{vmatrix} 0 & -1 & -1 \\ -\frac{\partial p}{\partial x} & 0 & U_{sy} \frac{\partial s}{\partial x} \\ -1 & 0 & U_{yy} \end{vmatrix}}{\begin{vmatrix} 0 & -\frac{\partial p}{\partial x} & -1 \\ -\frac{\partial p}{\partial x} & U_{ss} \left(\frac{\partial s}{\partial x}\right)^2 + U_s \frac{\partial^2 s}{\partial x^2} - \lambda \frac{\partial^2 p}{\partial x^2} & U_{sy} \frac{\partial s}{\partial x} \\ -1 & U_{sy} \frac{\partial s}{\partial x} & U_{yy} \end{vmatrix}}$$

The numerator will be positive provided that $U_{sy} \frac{\partial s}{\partial x} > U_{yy} \frac{\partial p}{\partial x}$. This is similar to the standard condition under which a good is normal, with additional accounting for the shape of the hedonic price function and the impact that distance x has on the good of interest s . Thus we expect $\frac{\partial x^\dagger}{\partial m} > 0$, i.e., x will be a normal good.

A3.9 Stone-Geary Preferences

Suppose we assume that the consumer has Stone-Geary utility $U(q, y) = (q - \eta_1)^\gamma (y - \eta_2)^{(1-\gamma)}$. As before, the first good, q , is unobserved healthiness. It is a function of observable distance x to a point source: $q = \alpha_0 - \alpha_1\beta + \beta x$. When households are fully informed, they know the true α_0 , α_1 , and β parameters. Under limited information, they misperceive the β parameter. The second good, y , is the other (i.e., numeraire) good, unrelated to distance x to the point source. The individual has the following maximization problem:

$$\max_{x,y} U(q(x), y) \quad s.t. \quad px + y = m$$

The first-order conditions that define the optimal bundle (λ^*, x^*, y^*) are as follows:

$$\begin{aligned} m - px - y &= 0 \\ \gamma (q - \eta_1)^{\gamma-1} \left(\frac{\partial q}{\partial x} \right) (y - \eta_2)^{1-\gamma} - \lambda p &= 0 \\ (1 - \gamma) (q - \eta_1)^\gamma (y - \eta_2)^{-\gamma} - \lambda &= 0 \end{aligned}$$

Taking the second and third conditions above, we rearrange them so that the terms containing λ are on the right-hand side. We then divide the second condition by the third and rearrange terms to obtain

$$\frac{q^* - \eta_1}{y^* - \eta_2} = \frac{1}{p} \cdot \frac{\gamma}{1 - \gamma} \cdot \frac{\partial q^*}{\partial x^*}$$

Note that we can express q^* as a function of x^* , and that $\frac{\partial q^*}{\partial x^*} = \beta$. Substituting for y^* using the first first-order condition, we find the optimal, full-information choice of distance:

$$x^* = \frac{\gamma m}{p} - \frac{(1 - \gamma)(\alpha_0 - \alpha_1\beta - \eta_1)}{\beta} - \frac{\gamma\eta_2}{p}$$

When a household learns the true β , she will move farther away:

$$\frac{\partial x^*}{\partial \beta} = \frac{(1 - \gamma)(\alpha_0 - \eta_1)}{\beta^2}$$

However, the extent to which she does so does not depend on her income. This result is true in our Cobb-Douglas model as well. Equivalently, $\frac{\partial x^*}{\partial m} = \frac{\gamma}{p}$, which does not depend on β .

A3.10 Constant Elasticity of Substitution (CES) Preferences

Suppose we assume that the consumer has CES utility $U(q, y) = (q^\gamma + y^\gamma)^{1/\gamma}$. As before, the first good, q , is unobserved healthiness. It is a function of observable distance x to a point source: $q = \alpha_0 - \alpha_1\beta + \beta x$. When households are fully informed, they know the true α_0 , α_1 , and β parameters. Under limited information, they misperceive the β parameter. The second good, y , is the other (i.e., numeraire) good, unrelated to distance x to the point source.

The individual has the following maximization problem:

$$\max_{x,y} U(q(x), y) \quad s.t. \quad px + y = m$$

The first-order conditions that define the optimal bundle (λ^*, x^*, y^*) are as follows:

$$\begin{aligned} m - px - y &= 0 \\ (q^\gamma + y^\gamma)^{(1/\gamma)-1} q^{\gamma-1} \frac{\partial q}{\partial x} - \lambda p &= 0 \\ (q^\gamma + y^\gamma)^{(1/\gamma)-1} y^{\gamma-1} - \lambda &= 0 \end{aligned}$$

Taking the second and third conditions above, we rearrange them so that the terms containing λ are on the right-hand side. We then divide the second condition by the third and rearrange terms to obtain

$$\frac{q^*}{y^*} = \left(\frac{p}{\frac{\partial q^*}{\partial x^*}} \right)^{\frac{1}{\gamma-1}}$$

Note that we can express q^* as a function of x^* , and that $\frac{\partial q^*}{\partial x^*} = \beta$. Substituting for y^* using the first first-order condition, we find the optimal, full-information choice of distance:

$$x^* = \left(\frac{m}{\beta^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p} \right) - \left(\frac{(\alpha_0 - \alpha_1\beta) \beta^{\frac{1}{\gamma-1}} p^{\frac{1}{1-\gamma}}}{\beta^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p} \right)$$

We can explore this in two ways. First, recall the intuition we provide in Section 3. We can evaluate how utility changes for a small perturbation of the value of x around the uninformed equilibrium $(q^\dagger, s^\dagger, y^\dagger)$. This utility change is given by $U_{q^\dagger} \frac{\partial q^\dagger}{\partial x^\dagger} dx$. As we discuss in the main text, U_{q^\dagger} is larger for low-income consumers and $\frac{\partial q^\dagger}{\partial x^\dagger}$ is weakly larger for low-income consumers. That leaves the question of whether dx is larger for low-income or high-income consumers.

In our Cobb-Douglas model, $\frac{dx^*}{dm}$ does not depend on β . When a household learns pollution is worse, she moves farther away from the point source – but the extent to which she does

so does not depend on her income. In contrast, for CES utility, we have:

$$\frac{dx^*}{dm} = \frac{1}{\beta^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p} > 0$$

Distance is a normal good, as expected. How does the distance-income relationship vary with β ?

$$\frac{d^2 x^*}{dmd\beta} = \frac{\left(\frac{\gamma}{1-\gamma}\right) p^{\frac{1}{1-\gamma}} \beta^{\frac{1}{\gamma-1}}}{\left(\beta^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p\right)^2} > 0$$

High-income households move even further away than do low-income households if they learn pollution is bad. In the intuition we use in our generalized model, this means that DWL could be larger or smaller for high-income households; it is unclear. Low-income households have a larger marginal utility from gains in x , and a weakly larger translation into improvements in q (here, equivalent translation, as the dissipation function is linear), but a smaller change in x when they learn the true β .

As we next show, whether DWL is larger or smaller for high-income households depends on the dissipation function parameters, the utility parameters, income, and prices. That is, it is straightforward to show parameterizations for which DWL is either increasing or decreasing in income m . We show two examples, for which preferences are identical, but prices are different, that lead to these two different distributional effects.

As shown above, the consumer selects distance x as follows:

$$x^* = \left(\frac{m}{\beta^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p}\right) - \left(\frac{(\alpha_0 - \alpha_1 \beta) \beta^{\frac{1}{\gamma-1}} p^{\frac{1}{1-\gamma}}}{\beta^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p}\right)$$

From this, we can calculate the informed q^* and uninformed q^\dagger :

$$q^*(x^*, \beta_1) = \alpha_0 - \alpha_1 \beta_1 + \beta_1 \left(\left(\frac{m}{\beta_1^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p}\right) - \left(\frac{(\alpha_0 - \alpha_1 \beta_1) \beta_1^{\frac{1}{\gamma-1}} p^{\frac{1}{1-\gamma}}}{\beta_1^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p}\right) \right)$$

$$q^\dagger(x^\dagger, \beta_1) = \alpha_0 - \alpha_1 \beta_1 + \beta_1 \left(\left(\frac{m}{\beta_0^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p}\right) - \left(\frac{(\alpha_0 - \alpha_1 \beta_0) \beta_0^{\frac{1}{\gamma-1}} p^{\frac{1}{1-\gamma}}}{\beta_0^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p}\right) \right)$$

Similarly, we can also calculate the informed y^* and uninformed y^\dagger :

$$y^* = m - p \cdot \left(\left(\frac{m}{\beta_1^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p} \right) - \left(\frac{(\alpha_0 - \alpha_1 \beta_1) \beta_1^{\frac{1}{\gamma-1}} p^{\frac{1}{1-\gamma}}}{\beta_1^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p} \right) \right)$$

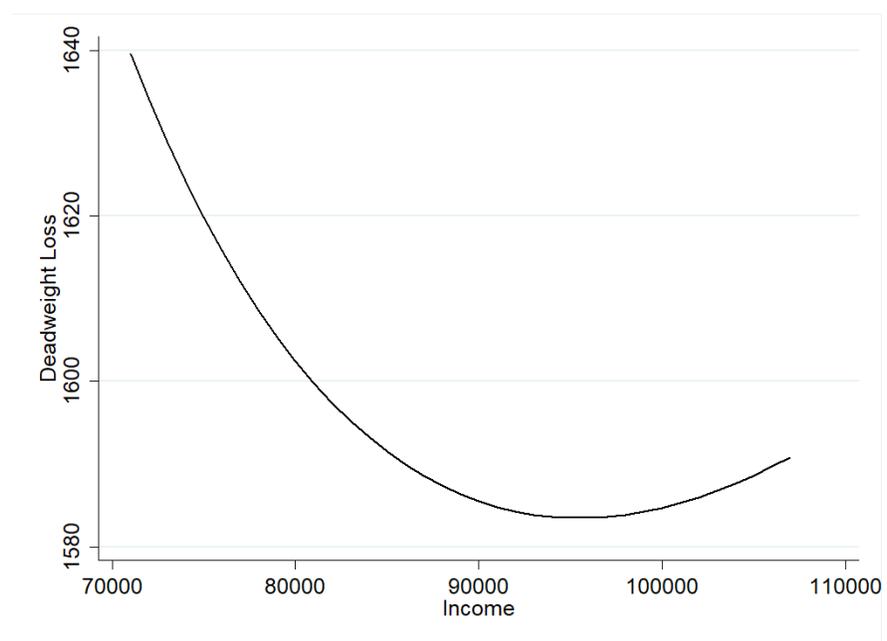
$$y^\dagger = m - p \cdot \left(\left(\frac{m}{\beta_0^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p} \right) - \left(\frac{(\alpha_0 - \alpha_1 \beta_0) \beta_0^{\frac{1}{\gamma-1}} p^{\frac{1}{1-\gamma}}}{\beta_0^{\frac{\gamma}{\gamma-1}} p^{\frac{1}{1-\gamma}} + p} \right) \right)$$

From these, we can calculate DWL: $U(q^*, y^*) - U(q^\dagger, y^\dagger)$. We show one example parameterization for which DWL is decreasing in m for some regions of m and increasing in others. The parameter values are as follows:

- $\alpha_0 = 9000$
- $\alpha_1 = 17000$
- $\beta_0 = 0.4$
- $\beta_1 = 0.5$
- $\gamma = 0.7$
- $p = 1$
- $71000 < m < 107000$

As Figure A4 shows, DWL is decreasing in m up until approximately $m = 95000$; it is increasing in m thereafter. Note these parameter values are not chosen to be empirically realistic; rather to show a simple case for which DWL could be either increasing or decreasing in m . Overall, with CES utility, it becomes an empirical question whether high-income or low-income households are made better off by improved information.

Figure A4: Deadweight Loss at Various Income Levels, CES Utility



Note: This figure plots deadweight loss across different income levels, for the parameterization described in the text.

A4 Empirical Exercises

A4.1 Who Is Impacted by Limited Information?

There are a great many instances in which individuals, communities, and societies have realized that pollution was worse or more detrimental than previously thought. In this subsection, we briefly introduce two such instances and present descriptive empirical facts that clarify who is likely to have borne the historical health burden of collective information failure. These empirical exercises are not intended to in of themselves prove welfare impacts, but rather to provide intuition for the results of our theoretical modeling.

Consider first new information about the health impacts of lead that emerged from research in the mid-2000s. This information was so compelling that the EPA dropped the federal ambient lead standard by an order of magnitude in 2008. Prior to this information becoming public, we might infer that communities had incorrect beliefs about the health damages of high lead concentrations. This could be modeled in our theoretical framework as an incorrect belief about β if higher levels of lead had proportionately higher damages to health. As such, it is worth considering which communities were experiencing the highest ambient lead exposure at the time of the EPA's standard change. Note that the analysis that follows does not focus on the change in the standard's level per se, but rather is motivated by the existence of new scientific information that caused the standard to change.

We assemble EPA monitoring data on annual average concentrations of airborne lead³⁵ as measured by the speciated PM_{2.5} monitoring network.³⁶ We locate each monitor in a 5-digit Zip Code Tabulation Area (ZCTA) using latitude and longitude data provided by the EPA and shapefiles from the 2000 Census. To these data, we add demographic characteristics of neighborhoods at the zip code level from the 2000 Census. Descriptive statistics are in Appendix Table A2; we note that the mean level of measured lead is well below the new standard.

We regress each demographic characteristic on the level of airborne lead (logged).³⁷ We include fixed effects at the level of a core-based statistical area (CBSA), to compare residents of the same metro area with low versus high levels of lead.³⁸ As we show in Panel A of

³⁵Lead exposure can also occur via soil or water contamination, so the air concentrations on which we focus do not represent all forms of lead exposure.

³⁶The EPA's Chemical Speciation Network measures the amount of various elements (e.g., arsenic, cadmium, lead, etc.) in collected particulate matter.

³⁷We use lead data from 2001, representing an intermediate year between the 2000 Census and the 2008 standard change. Lead monitoring in 1999 and 2000 (i.e., more closely matching the demographic data) is very sparse. Results using data from 2008 (i.e., at the time of the standard change) are very similar to the 2001 results; see Appendix Table A4.

³⁸Around 4.5 percent of the population is in a Zip Code Tabulation Area that does not match to a CBSA;

Table A3, communities with high lead concentrations tend to have lower incomes, greater unemployment rates, a higher proportion of families below the poverty line, and a higher proportion of people of color. Unsurprisingly, the standard errors are large; only 206 zip codes had a monitor for speciated particulate matter in this year, and we are relying for identification on CBSAs with multiple zip codes containing monitors ($n = 95$). Regressions without CBSA fixed effects, in Appendix Table A4, yield the same directional impacts and much greater statistical significance. If we instead use modeled lead concentrations from the 2002 National Air Toxics Assessment, which cover the entire US, we obtain qualitatively similar estimates with more precision (again, see Appendix Table A4).

The simplest interpretation of these results (particularly the first three columns, relating to income, unemployment, and poverty) might be that lack of lead pollution is a normal good – i.e., our first environmental justice metric. However, this would miss the key point that communities were not fully aware of lead’s impacts. Indeed, the results also point to our second environmental justice metric – that low-income communities (and people of color) were historically the most physically impacted by incomplete scientific information about the health impacts of lead. To measure the welfare implications (our third metric), one could next examine whether households moved following the release of the new scientific information. However, additional data or assumptions would be needed on (1) the degree to which (and mechanisms by which) the public became aware of the new scientific information; (2) moving costs; and (3) other potential confounders in the housing market over this time period.

A second empirical example illustrates how underreporting of pollution may affect the distributional impacts of emissions. In October 1999, the EPA issued an enforcement alert for the petroleum refining sector. The alert stated that an EPA monitoring program had shown “that the number of leaking valves and components is up to 10 times greater than had been reported by certain refineries,” and that as a result, emissions rates of volatile organic compounds (some of them hazardous chemicals) were substantially higher than had been reported by firms (EPA, 1999). Again, this can be modeled as implying an incorrect belief about the β parameter in our model – given the way pollution dissipates, being closer to a refinery would imply proportionately higher concentrations of air pollution.

We can assess who is likely to have been most impacted by this historical underreporting by investigating the characteristics of people living near refineries prior to the EPA’s alert. We thus obtain information on the location of US petroleum refineries from the EPA’s National Emissions Inventory (NEI). Specifically, we analyze all zip codes with a facility in the 1999 NEI that was classified in SIC sector 2911 (Petroleum Refining); 210 zip codes had

we drop these ZCTAs from our regressions.

such a facility in 1999. Using the 2000 Census data described above, we examine differences in demographic characteristics across zip codes with and without a refinery. Note that the 2000 Census asks about income in 1999, i.e., at the time the Enforcement Alert was published.

We regress each demographic variable on the refinery indicator, including CBSA fixed effects, to compare communities in the same metro area.³⁹ Results, in Panel B of Table A3, show that zip codes with refineries in them had significantly lower income levels and significantly higher proportions of non-White families and families below the poverty line (we show results without CBSA effects in Appendix Table A5). Thus, it appears that the communities most physically impacted by the historical underreporting were economically disadvantaged and non-White. These results again are consistent with both our first and second environmental justice metrics; additional modeling assumptions and empirical evidence would be needed to analyze the full welfare impacts.

A4.2 Co-located Amenities

In this Appendix section, we study the empirical relationships between disamenities of different levels of salience, as motivated by our general model in Section 3 and summary discussion of correlated disamenities in Section 4.3. To do so, we assemble data on air pollution, noise pollution, and land use. From the EPA’s monitoring network, we collect ambient concentrations of four criteria pollutants – NO₂, ozone, PM_{2.5}, and SO₂ – and two toxic pollutants – benzene and toluene. As described above, these latter two compounds are emitted by the refining industry (as well as other industries) and have negative developmental and/or carcinogenic effects. We focus on benzene and toluene both because (1) refining has been a focus of the environmental justice movement (Fleischman and Franklin, 2017); and (2) the monitoring network of these chemicals is denser than is the monitoring of other hazardous air pollutants.

We observe annual average concentrations by monitor for the year 2001 (which matches the time period of our land use data),⁴⁰ and we locate each monitor in a 5-digit ZCTA using latitude and longitude data provided by the EPA. Unfortunately, even for these six criteria and hazardous pollutants (which have the densest coverage in the EPA dataset), monitoring is quite incomplete; we observe the fewest zip codes for toluene (215 total) and the most for

³⁹The NEI dataset appears to classify some facilities, such as tank farms, as SIC 2911, in addition to refineries. We perform a fuzzy string match to match EPA NEI facilities to petroleum refineries listed in the US Energy Information Administration’s (EIA) Petroleum Supply Annual. Regressions using the subset of facilities that match to the EIA report (located in 137 zip codes, rather than 210) yield similar results; see Appendix Table A5.

⁴⁰In Appendix Table A7, we show results using pollution measures from 2016.

ozone (1,116 zip codes) in our analysis.⁴¹

We collect data on one additional measure of pollution exposure, modeled cancer risk, from the EPA’s 2002 National Air Toxics Assessment (NATA). This measure takes emissions data from the National Emissions Inventory – covering both point and nonpoint sources – and imputes cancer risk.⁴² An advantage of these data is that the EPA presents estimates for every zip code, so we have broader coverage than for the measured pollution concentration data.⁴³ Additionally, the variable aggregates the risk associated with many different pollutants. A disadvantage is that the risk is modeled based on NEI emissions, rather than measured in the way that concentrations of our six criteria and toxic pollutants come directly from pollution monitors.⁴⁴

We merge these pollution exposure variables with noise and land use data.⁴⁵ Noise data come from the Department of Transportation’s National Transportation Map. Like our estimates of cancer risk, our estimates of noise are modeled, rather than measured. They are based on information about major roadways as well as airports, and “represent the approximate average noise energy due to transportation noise sources over the 24 hour period.”⁴⁶ Meanwhile, land use data are published by the US Geological Survey at the Department of the Interior.⁴⁷ The key variable is a land use classification – such as “developed - high intensity,” “developed - medium intensity,” “water,” or “wetlands” – derived from satellite imaging. We tabulate descriptive statistics in Appendix Table A2.

We start by examining the correlation between salient disamenities (noise and ugly views) and NO₂. NO₂ causes negative health effects such as asthma and cardiovascular conditions, and mobile sources (trucks and cars) are a major contributor to NO₂. The left-hand panel

⁴¹We provide coverage maps in Appendix Figure A6.

⁴²More specifically, the NATA uses NEI emissions, dispersion and deposition models, and an inhalation exposure model (which includes components such as a human activity pattern database).

⁴³The EPA NATA data are at the Census Tract level. We match these to zip codes using a 2010 US Department of Housing and Urban Development crosswalk. Around 0.2 percent of the conterminous US population is in a ZCTA that does not directly merge with the NATA data; we drop these ZCTAs from our cancer risk regression.

⁴⁴The EPA cautions that NATA should not be used for analyses such as “pinpoint[ing] specific risk values within a census tract,” but argues that the results “help to identify geographic patterns and ranges of risks across the country” (Environmental Protection Agency, 2011, p 5) We use the NATA data in ways consistent with the latter but caveat our results accordingly. Interestingly, one of the reasons EPA provides caution about NATA data is that they have, over time, provided “a better and more complete inventory of emission sources, an overall increase in the number of air toxics evaluated, and updated health data for use in risk characterization” (Environmental Protection Agency, 2011, p 6) – supporting our argument that historically, pollution exposure has been (unintentionally) underreported.

⁴⁵Again, we use 2000 Census shapefiles to match locations to ZCTAs.

⁴⁶This description is from <http://osav-usdot.opendata.arcgis.com/>. We use 2018 noise data; data for 2001 are not available.

⁴⁷Specifically, we use the 2001 Land Cover 100 Meter Resolution - Conterminous United States, Albers Projection data.

of Figure A5 plots NO_2 concentrations against noise levels and reveals a strong positive correlation between these two disamenities. The right-hand panel similarly plots NO_2 against a zip code's proportion of land dedicated to high-intensity development; the fitted relationship is similarly positive. From these two figures, then, it is clear that a household wishing to avoid noise or to avoid high-intensity development (perhaps because of visual disamenities) would also likely avoid high concentrations of NO_2 .

We next turn to regression analysis. Table A6 shows regressions of each measure of pollution exposure on the more salient disamenities of noise and land use. The pollution exposure variables are all in logs, as is the noise variable. The land use variables each represent the percentage of the zip code's area that is dedicated to a particular land use. The omitted category of land use is forest. We include fixed effects at the level of a core-based statistical area in all seven regressions. These regressions are not intended to provide causal estimates of amenities on pollution exposure. Rather, they are intended to show cross-sectional correlations between ambient amenities and pollution exposure. The thought experiment that they are designed to replicate is: if an individual were to choose one zip code over another (within a metro area) based on the geographic variation in noise level and land use, what is the typical level of pollution to which she would be exposed? Because individuals make these decisions infrequently, we rely solely on cross-sectional variation.

Column 1 shows that a higher level of the salient disamenity implies a higher measure of pollution exposure. When an individual accepts a doubling of noise, she also accepts a roughly 13 percent higher concentration of NO_2 , statistically significant at the one-percent level. Similarly, if she were to move from an entirely forested area to an area that was entirely high-intensity development, she would experience roughly 60 log points more NO_2 (or more than 80 percent), again statistically significant at the one-percent level. As one moves from high-intensity development down to low-intensity development, the pollution exposure drops. Wetlands and barren land have the lowest levels of NO_2 , conditional on the CBSA fixed effects and on a level of noise.

Ozone shows the opposite pattern. Ozone forms from the interaction of two separate types of chemicals: nitrogen oxides (NO_x) and volatile organic compounds (VOCs). While human activity emits both of these pollutant types, vegetation is major source of VOCs (Auffhammer and Kellogg, 2011). As a result, rural and suburban areas can have high levels of ozone concentration.

$\text{PM}_{2.5}$, however, follows a pattern similar to that of NO_2 , with the highest concentrations in zip codes that are noisy and more intensely developed. As with NO_2 , the concentrations decline as one moves from high-intensity development to medium- and then low-intensity development. SO_2 does not follow this clear pattern, perhaps because it travels fairly far

(Burtraw et al., 2005). However, “the largest threat of SO₂ to public health is its role as a precursor to the formation of secondary particulates, a constituent of particulate matter” (Burtraw et al. 2005, p. 257), so the PM_{2.5} results are arguably more relevant for the thought exercise we are carrying out. Benzene, toluene, and cancer risk all follow a pattern similar to that of NO₂ and PM_{2.5}.⁴⁸

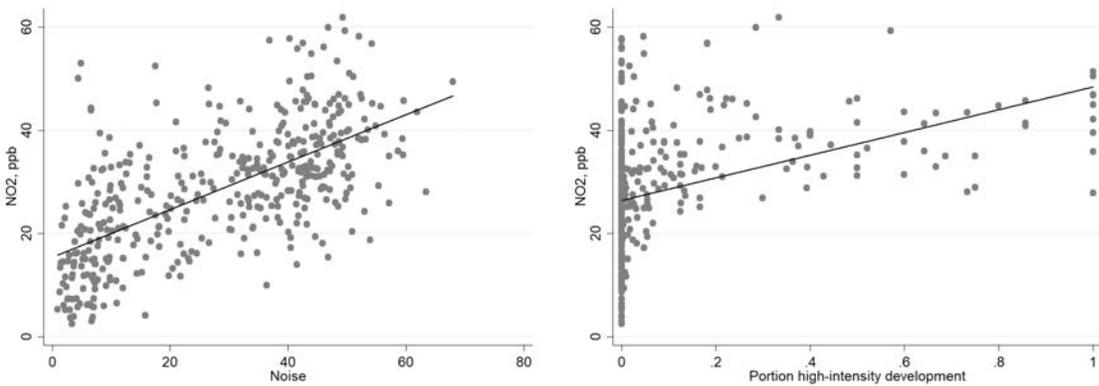
Overall, across the seven regressions, we see that five major types of pollutants are closely and positively correlated with noise and land use. The two exceptions are ozone (which displays the opposite relationship) and SO₂ (for which no statistically significant relationship appears in the regression results). We take this as evidence that non-salient environmental disamenities are co-located with more salient ones, consistent with one interpretation of the generalized form of our theoretical model.

Finally, in Appendix Tables A8 through A10, we briefly examine whether these co-located disamenities are correlated with household sorting decisions. Using the income data from the 2000 Census that we described above, we regress median household income at the zip code level on various types of disamenities.⁴⁹ We show first that zip codes with high levels of PM_{2.5} and zip codes with higher cancer risk have significantly lower incomes. We then run a “horse race” regression by including noise levels and land use variables. We show that the magnitudes of the coefficients on PM_{2.5} and cancer risk drop substantially and lose statistical significance. In contrast, high-intensity development is associated with a significantly lower income level. This suggests that co-located disamenities may be playing an important role in the decision of households of where to live. Importantly, we note that households may still have a positive willingness to pay for ambient environmental quality, because the small coefficients on PM_{2.5} and cancer risk in the horse race regressions could reflect a lack of information rather than a lack of willingness to pay.

⁴⁸In the cancer risk regression, there is a positive and statistically significant coefficient on both the water and wetlands variables. Part of the explanation may be that ports and other industrial facilities are located near water. Coverage maps in Appendix Figure A7 show where water and wetlands appear.

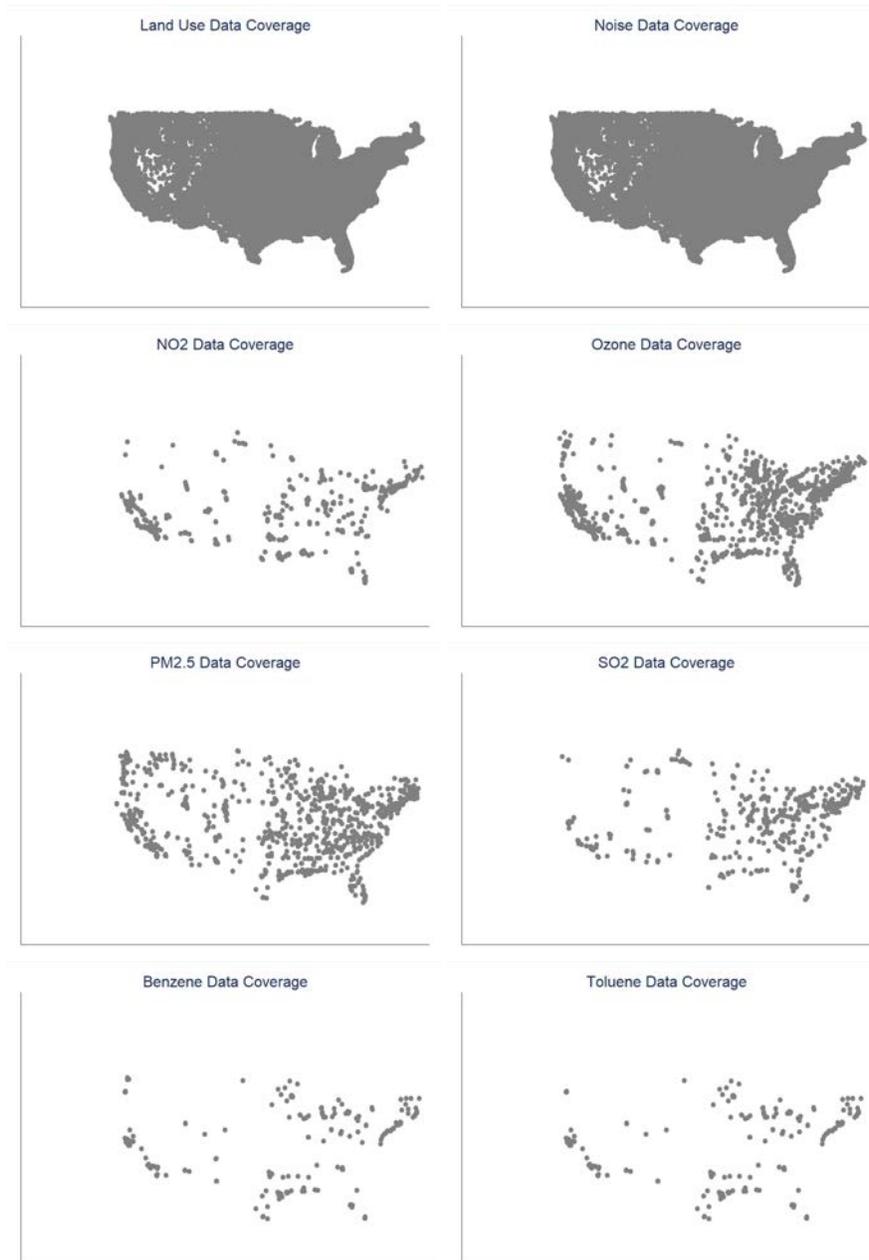
⁴⁹As before, we include CBSA fixed effects to compare households within a metro area.

Figure A5: Noise and Land Use Are Correlated with Pollution Exposure



Note: The left-hand figure plots the annual average NO₂ level (measured in parts per billion) in a 5-digit Zip Code Tabulation Area in 2001 against the transportation noise in that area (measured in L_{Aeq} , roughly equivalent to decibels). The right-hand figure similarly plots the annual average NO₂ level (measured in parts per billion) in a 5-digit Zip Code Tabulation Area in 2001 against the portion of the land in that zip code dedicated to high-intensity development. Data sources are the EPA, DOT, and USGS; see text for details. The black line shows a linear fit. Roughly 400 zip codes have NO₂ monitors.

Figure A6: Data Coverage



Note: These figures plot a dot in each Zip Code Tabulation Area with both land use data and the additional data (either noise or air quality).

Figure A7: Water and Wetlands Locations



- 0-10 percent water
- 10-20 percent water
- 20+ percent water



- 0-10 percent wetlands
- 10-20 percent wetlands
- 20+ percent wetlands

Note: These figures plot a dot in each Zip Code Tabulation Area with a non-zero portion of the ZCTA devoted to water or wetlands.

Table A2: Summary Statistics

| | Mean | Std. Dev. | N |
|--|--------|-----------|--------|
| Pollution levels: | | | |
| Lead in PM2.5, $\mu\text{g}/\text{m}^3$ | 0.004 | 0.007 | 246 |
| NO2, ppb | 28.490 | 12.354 | 425 |
| Ozone, ppm | 0.046 | 0.007 | 1,116 |
| PM 2.5, $\mu\text{g}/\text{m}^3$ | 12.571 | 3.631 | 1,053 |
| SO2, ppb | 14.134 | 10.025 | 503 |
| Benzene, ppbc | 3.344 | 2.999 | 224 |
| Toluene, ppbc | 8.475 | 6.559 | 215 |
| Cancer risk, per billion | 0.024 | 0.015 | 31,126 |
| Refinery in zip code, NEI definition | 0.006 | 0.080 | 32,718 |
| Refinery in zip code, EIA match | 0.004 | 0.065 | 32,718 |
| Noise, LAeq | 14.237 | 14.068 | 30,999 |
| Land use: | | | |
| Developed, high intensity | 0.018 | 0.099 | 30,905 |
| Developed, medium intensity | 0.047 | 0.157 | 30,905 |
| Developed, low intensity | 0.067 | 0.169 | 30,905 |
| Developed, open space | 0.041 | 0.116 | 30,905 |
| Barren land | 0.003 | 0.024 | 30,905 |
| Forest, shrubland, or grassland | 0.446 | 0.371 | 30,905 |
| Farmland | 0.316 | 0.352 | 30,905 |
| Wetlands | 0.043 | 0.114 | 30,905 |
| Water | 0.018 | 0.069 | 30,905 |
| Demographics: | | | |
| Median household income, '000s | 39.630 | 16.230 | 31,645 |
| Percent unemployed | 3.450 | 3.199 | 31,712 |
| Percent of families below the poverty line | 9.891 | 9.152 | 31,590 |
| Percent White | 86.746 | 19.564 | 31,789 |
| Percent Black | 7.806 | 16.300 | 31,789 |
| Percent Latino/a | 6.375 | 13.500 | 31,789 |

Notes: A unit of observation is a Zip Code Tabulation Area. Air pollution data are annual averages for the year 2001. Each air pollutant is measured using whatever averaging time is used for the primary standard (e.g. 1-hour vs 8-hour vs 24-hour) that was in effect in 2018. Noise data are in a 24-hr equivalent sound level (LEQ, denoted by LAeq) noise metric. Data are from the Environmental Protection Agency, the Energy Information Administration, the US Geological Survey, the Department of Transportation, and the Census. See text for details.

Table A3: Demographic Characteristics Were Correlated with Pollution Exposure *Prior* to Full Information Provision

| | Income, '000s | % Unempl. | % Below Poverty | % White | % Black | % Latino/a |
|---|--------------------|------------------|-------------------|--------------------|------------------|-------------------|
| <i>Panel A. Ambient Lead Exposure in 2001</i> | | | | | | |
| Log airborne lead concentration | -4.21 (2.60) | 0.44 (0.43) | 2.67 (1.71) | -11.72** (4.57) | 5.50 (4.09) | 5.27** (2.40) |
| Observations | 203 | 203 | 203 | 203 | 203 | 203 |
| Within R ² | 0.04 | 0.02 | 0.04 | 0.10 | 0.03 | 0.07 |
| Mean of dep. var. | 37.07 | 4.80 | 13.18 | 74.61 | 16.37 | 11.98 |
| <i>Panel B. Refinery Locations in 1999</i> | | | | | | |
| Refinery in zip code | -4.30*** (1.01) | 0.43** (0.21) | 2.07*** (0.53) | -4.29*** (1.17) | 2.10** (1.00) | 5.90*** (0.68) |
| Observations | 23,854 | 23,892 | 23,833 | 23,912 | 23,912 | 23,912 |
| Within R ² | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mean of dep. var. | 42.42 | 3.42 | 9.00 | 85.68 | 8.53 | 7.15 |

Note: This table reports estimates and standard errors from twelve separate regressions. The dependent variable is listed above each column. In Panel A, the independent variable is ambient lead concentrations: logged lead in PM2.5 form. In Panel B, the independent variable is a dummy for whether a refinery is located in the zip code. The unit of observation is a 5-digit Zip Code Tabulation Area. Income is the median household income in the zip code, in thousands of 1999 dollars. Percent below poverty refers to the percentage of families below the poverty line. Percentage White, Black, and Latino/a refer to the percentage of individuals. Data source: Census for demographics; EPA for ambient lead concentrations; EIA'S Petroleum Supply Annual and EPA's National Emissions Inventory for refinery locations. All regressions include CBSA fixed effects. *** Statistically significant at the 1% level; ** 5% level; * 10% level. ” ”

Table A4: Robustness: Demographic Characteristics Were Correlated with Ambient Lead Exposure

| <i>Panel A. Using 2008 Ambient Lead Data</i> | | | | | | |
|--|--------------------|-------------------|-------------------|---------------------|--------------------|-------------------|
| | Income, '000s | % Unempl. | % Below Poverty | % White | % Black | % Latino/a |
| Log airborne lead concentration | -6.25** (2.85) | 1.26 (0.80) | 2.83 (2.53) | -10.93** (4.67) | 2.97 (3.88) | 5.28* (2.89) |
| Observations | 289 | 290 | 288 | 290 | 290 | 290 |
| Within R ² | 0.05 | 0.03 | 0.01 | 0.06 | 0.01 | 0.04 |
| Mean of dep. var. | 36.85 | 4.98 | 13.17 | 74.82 | 15.65 | 11.82 |
| <i>Panel B. Using 2001 Ambient Lead Data, No CBSA Fixed Effects</i> | | | | | | |
| | Income, '000s | % Unempl. | % Below Poverty | % White | % Black | % Latino/a |
| Log airborne lead concentration | -1.67** (0.85) | 0.49** (0.23) | 2.89*** (0.64) | -11.39*** (1.46) | 10.88*** (1.34) | 0.88 (1.15) |
| Observations | 245 | 245 | 244 | 245 | 245 | 245 |
| R ² | 0.02 | 0.02 | 0.08 | 0.20 | 0.21 | 0.00 |
| Mean of dep. var. | 36.20 | 4.71 | 13.04 | 77.52 | 13.93 | 11.39 |
| <i>Panel C. Using Modeled Ambient Lead Concentration Data from the 2002 NATA</i> | | | | | | |
| | Income, '000s | % Unempl. | % Below Poverty | % White | % Black | % Latino/a |
| Log lead concentration | -0.63*** (0.17) | 0.59*** (0.03) | 1.55*** (0.09) | -9.33*** (0.19) | 6.24*** (0.16) | 3.62*** (0.11) |
| Observations | 23,774 | 23,808 | 23,753 | 23,827 | 23,827 | 23,827 |
| Within R ² | 0.00 | 0.01 | 0.01 | 0.10 | 0.06 | 0.04 |
| Mean of dep. var. | 42.45 | 3.41 | 8.98 | 85.69 | 8.53 | 7.15 |

Note: This table is identical to Panel A of Table A3 in the main text, but with the changes noted in the panel titles. *** Statistically significant at the 1% level; ** 5% level; * 10% level.

Table A5: Robustness: Demographic Characteristics Were Correlated with Proximity to Refineries

| <i>Panel A. Using only refineries listed in the EIA's Petroleum Supply Annual</i> | | | | | | |
|---|--------------------|-------------------|-------------------|---------------------|-------------------|--------------------|
| | Income, '000s | % Unempl. | % Below Poverty | % White | % Black | % Latino/a |
| Refinery in zip code | -4.02*** (1.23) | 0.48* (0.25) | 2.29*** (0.65) | -4.07*** (1.42) | 1.48 (1.21) | 5.96*** (0.83) |
| Observations | 23,854 | 23,892 | 23,833 | 23,912 | 23,912 | 23,912 |
| Within R ² | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mean of dep. var. | 42.42 | 3.42 | 9.00 | 85.68 | 8.53 | 7.15 |
| <i>Panel B. Using all NEI-listed facilities, No CBSA Fixed Effects</i> | | | | | | |
| | Income, '000s | % Unempl. | % Below Poverty | % White | % Black | % Latino/a |
| Refinery in zip code | -1.48 (1.12) | 0.83*** (0.22) | 3.15*** (0.63) | -12.69*** (1.35) | 5.46*** (1.13) | 10.57*** (0.93) |
| Observations | 31,645 | 31,712 | 31,590 | 31,789 | 31,789 | 31,789 |
| R ² | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mean of dep. var. | 39.63 | 3.45 | 9.89 | 86.75 | 7.81 | 6.37 |

Note: This table is identical to Panel B of Table A3 in the main text, but with the changes noted in the panel titles. *** Statistically significant at the 1% level; ** 5% level; * 10% level..

Table A6: Pollution Risk is Correlated with Other Disamenities

| | NO2 | Ozone | PM2.5 | SO2 | Benzene | Toluene | Cancer risk |
|-----------------------------|--------------------|--------------------|--------------------|-----------------|------------------|------------------|-------------------|
| Noise | 0.13*** (0.04) | -0.01** (0.01) | 0.06*** (0.02) | 0.06 (0.06) | 0.19 (0.14) | 0.19 (0.15) | 0.04*** (0.00) |
| Land use: | | | | | | | |
| Developed, high intensity | 0.60*** (0.11) | -0.22*** (0.03) | 0.28*** (0.04) | 0.22 (0.17) | 0.55** (0.26) | 0.69** (0.29) | 0.93*** (0.01) |
| Developed, medium intensity | 0.35*** (0.10) | -0.12*** (0.02) | 0.21*** (0.04) | -0.06 (0.16) | 0.59** (0.25) | 0.49* (0.28) | 0.55*** (0.01) |
| Developed, low intensity | 0.33*** (0.12) | -0.05* (0.03) | 0.10** (0.04) | -0.01 (0.19) | 0.29 (0.31) | 0.88** (0.36) | 0.53*** (0.01) |
| Developed, open space | 0.40** (0.19) | 0.02 (0.04) | 0.14** (0.06) | -0.03 (0.27) | 0.36 (0.44) | 0.14 (0.47) | 0.51*** (0.01) |
| Water | 0.32 (0.22) | 0.01 (0.06) | 0.04 (0.10) | 0.25 (0.43) | 0.54 (0.47) | 0.33 (0.51) | 0.27*** (0.02) |
| Wetlands | -0.75*** (0.22) | -0.10** (0.05) | 0.14 (0.08) | -0.00 (0.34) | 0.39 (0.42) | 0.47 (0.46) | 0.16*** (0.02) |
| Farmland | 0.07 (0.10) | -0.02 (0.02) | 0.17*** (0.04) | -0.12 (0.18) | -0.17 (0.28) | -0.38 (0.31) | 0.00 (0.01) |
| Barren land | -0.61 (0.41) | 0.12 (0.10) | -0.96*** (0.23) | 0.26 (1.07) | 0.28 (2.36) | -0.30 (2.55) | 0.02 (0.06) |
| Observations | 408 | 1,049 | 980 | 465 | 216 | 208 | 23,328 |
| Within R ² | 0.49 | 0.21 | 0.32 | 0.04 | 0.28 | 0.34 | 0.48 |

Note: This table reports estimates and standard errors from seven separate regressions. The dependent variable in the first six columns is log ambient concentrations; in the last column it is log total cancer risk. The unit of observation is a 5-digit Zip Code Tabulation Area. The noise variable is also logged. Land use variables are the portion of the zip code dedicated to that land use; the omitted category of land use is forest. All regressions include CBSA fixed effects. *** Statistically significant at the 1% level; ** 5% level; * 10% level.

Table A7: Robustness: 2016 Air Quality Data

| | NO2 | Ozone | PM2.5 | SO2 | Benzene | Toluene | Cancer risk |
|-----------------------------|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Noise | 0.23*** (0.06) | 0.00 (0.00) | 0.09*** (0.02) | -0.27** (0.13) | -0.03 (0.09) | 0.06 (0.14) | 0.04*** (0.00) |
| Land use: | | | | | | | |
| Developed, high intensity | 0.77*** (0.17) | -0.16*** (0.02) | 0.19*** (0.06) | 0.51 (0.32) | 0.49*** (0.17) | 0.79*** (0.27) | 0.93*** (0.01) |
| Developed, medium intensity | 0.42*** (0.15) | -0.08*** (0.02) | 0.19*** (0.05) | 0.52* (0.28) | 0.57*** (0.17) | 0.96*** (0.27) | 0.55*** (0.01) |
| Developed, low intensity | 0.54*** (0.19) | -0.03 (0.02) | 0.06 (0.06) | 0.06 (0.35) | 0.30 (0.21) | 0.66* (0.33) | 0.53*** (0.01) |
| Developed, open space | 0.36 (0.25) | 0.01 (0.02) | 0.14* (0.08) | 0.02 (0.52) | 0.30 (0.31) | -0.12 (0.49) | 0.51*** (0.01) |
| Water | 0.88** (0.36) | -0.02 (0.05) | 0.12 (0.13) | -0.17 (0.89) | 1.08** (0.43) | 3.01*** (0.66) | 0.27*** (0.02) |
| Wetlands | -0.50 (0.32) | -0.05 (0.04) | 0.14 (0.14) | -0.81 (0.61) | -0.67 (0.44) | 0.86 (0.68) | 0.16*** (0.02) |
| Farmland | 0.25 (0.17) | -0.06*** (0.01) | 0.16*** (0.05) | 0.07 (0.34) | 0.18 (0.23) | 0.03 (0.37) | 0.00 (0.01) |
| Barren land | -0.08 (0.69) | 0.02 (0.09) | 0.09 (0.43) | 1.55 (1.83) | 0.50 (1.68) | -1.78 (2.60) | 0.02 (0.06) |
| Observations | 402 | 1,103 | 829 | 390 | 192 | 188 | 23,328 |
| Within R ² | 0.43 | 0.12 | 0.22 | 0.06 | 0.28 | 0.43 | 0.48 |

Note: Regressions are identical to Table A6 in the main text, but with 2016 air quality data. *** Statistically significant at the 1% level; ** 5% level; * 10% level.

Table A8: Income is Correlated with Disamenities

| | (1) | (2) | (3) |
|--------------------------------|--------------------|--------------------|--------------------|
| PM 2.5 (log) | -0.65*** (0.09) | | -0.15 (0.09) |
| Cancer risk, per million (log) | | -0.45*** (0.04) | -0.12** (0.05) |
| Log noise | | | 0.06* (0.03) |
| Land use: | | | |
| Developed, high intensity | | | -0.87*** (0.10) |
| Developed, medium intensity | | | -0.61*** (0.09) |
| Developed, low intensity | | | -0.19** (0.09) |
| Developed, open space | | | 0.07 (0.12) |
| Water | | | -0.85*** (0.22) |
| Wetlands | | | -0.18 (0.18) |
| Farmland | | | -0.00 (0.09) |
| Barren land | | | -1.42*** (0.49) |
| Observations | 980 | 980 | 980 |
| Within R ² | 0.09 | 0.17 | 0.39 |

Note: This table reports estimates and standard errors from three separate regressions. The dependent variable in all columns is logged median household income in 1999. The unit of observation is a 5-digit Zip Code Tabulation Area. The noise, PM 2.5, and cancer risk variables are also logged. Land use variables are the portion of the zip code dedicated to that land use; the omitted category of land use is forest. All regressions include CBSA fixed effects. All three columns restrict the sample to zip codes with PM 2.5, cancer risk, noise, and land use data. *** Statistically significant at the 1% level; ** 5% level; * 10% level.

Table A9: Robustness: Income is Correlated with Disamenities

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|-----------------------------|--------------------|--------------------|-------------------|--------------------|--------------------|--------------------|-------------------|--------------------|
| NO2 (log) | -0.46*** (0.06) | -0.30*** (0.08) | | | | | | |
| Ozone (log) | | | 0.94*** (0.11) | 0.29*** (0.11) | | | | |
| PM 2.5 (log) | | | | | -0.65*** (0.09) | -0.19** (0.09) | | |
| SO2 (log) | | | | | | | -0.13** (0.05) | -0.07 (0.04) |
| Log noise | | 0.16*** (0.05) | | 0.05*** (0.02) | | 0.05 (0.03) | | 0.05 (0.05) |
| Land use: | | | | | | | | |
| Developed, high intensity | | -0.89*** (0.14) | | -0.93*** (0.09) | | -0.94*** (0.09) | | -0.85*** (0.12) |
| Developed, medium intensity | | -0.57*** (0.12) | | -0.55*** (0.06) | | -0.65*** (0.08) | | -0.63*** (0.11) |
| Developed, low intensity | | -0.32** (0.15) | | -0.28*** (0.07) | | -0.22** (0.09) | | -0.17 (0.13) |
| Developed, open space | | 0.07 (0.23) | | 0.15 (0.11) | | 0.05 (0.12) | | 0.27 (0.19) |
| Water | | -0.22 (0.27) | | -0.16 (0.18) | | -0.94*** (0.22) | | -0.33 (0.30) |
| Wetlands | | -0.27 (0.27) | | -0.33** (0.13) | | -0.18 (0.18) | | 0.05 (0.24) |
| Farmland | | -0.08 (0.13) | | -0.02 (0.06) | | 0.01 (0.09) | | 0.10 (0.13) |
| Barren land | | -1.06** (0.49) | | -0.16 (0.29) | | -1.36*** (0.49) | | -0.58 (0.76) |
| Observations | 408 | 408 | 1,049 | 1,049 | 980 | 980 | 465 | 465 |
| Within R ² | 0.18 | 0.38 | 0.09 | 0.31 | 0.09 | 0.38 | 0.02 | 0.35 |

Note: This table is identical to Table A8, but for additional pollutants. The dependent variable is the log of median household income in a Zip Code Tabulation Area in 1999. The pollutants cannot all be combined into one regression because there are insufficient zip codes with monitors for all pollutants. *** Statistically significant at the 1% level; ** 5% level; * 10% level.

Table A10: Robustness: Income is Correlated with Disamenities

| | (1) | (2) | (3) | (4) | (5) | (6) |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Benzene (log) | -0.34*** (0.06) | -0.14** (0.06) | | | | |
| Toluene (log) | | | -0.25*** (0.06) | -0.06 (0.06) | | |
| Cancer risk, per million (log) | | | | | -0.08*** (0.01) | 0.19*** (0.01) |
| Log noise | | -0.04 (0.09) | | -0.07 (0.10) | | 0.02*** (0.00) |
| Land use: | | | | | | |
| Developed, high intensity | | -0.92*** (0.18) | | -0.95*** (0.19) | | -1.06*** (0.02) |
| Developed, medium intensity | | -0.47*** (0.17) | | -0.52*** (0.18) | | -0.61*** (0.01) |
| Developed, low intensity | | -0.16 (0.21) | | -0.13 (0.23) | | -0.21*** (0.01) |
| Developed, open space | | -0.10 (0.29) | | -0.14 (0.30) | | 0.14*** (0.02) |
| Water | | 0.19 (0.31) | | 0.16 (0.33) | | -0.07*** (0.03) |
| Wetlands | | -0.29 (0.28) | | -0.32 (0.30) | | -0.09*** (0.02) |
| Farmland | | -0.01 (0.18) | | -0.01 (0.20) | | 0.01 (0.01) |
| Barren land | | -0.58 (1.56) | | -0.65 (1.62) | | -0.18** (0.08) |
| Observations | 216 | 216 | 208 | 208 | 23,293 | 23,293 |
| Within R ² | 0.19 | 0.49 | 0.13 | 0.47 | 0.01 | 0.22 |

Note: This table is identical to Table A8, but for additional pollutants. The dependent variable is the log of median household income in a Zip Code Tabulation Area in 1999. The pollutants cannot all be combined into one regression because there are insufficient zip codes with monitors for all pollutants. *** Statistically significant at the 1% level; ** 5% level; * 10% level.