

ABSTRACT

The negative environmental externalities is one of the problems to get Pareto optimal. Government intervention through environmental regulation is one way to correct for the market to achieve Pareto optimal. The Government through the Ministry of Environment and Forests is mandated to issue government regulations on Environmental Economic Instruments as mandated by Act (Indonesia: Undang-undang) No. 32 of 2009 about the protection and management of the environment. One environmental economic instrument is environmental subsidy. Subsidy is given to the technologies which is environment-friendly. The aim of this study was to discern decision-making behaviour of individual in response to subsidy towards technology.

Experiment approach is used to test the behavior of individuals in decision-making. The object of experiment in this study were 25 students of the Faculty of Economics and Business, Diponegoro University; which were chosen randomly. Experimental Economics is employed using two treatments given. The treatments were non-subsidies and subsidies treatment. Non-parametric Mann Whitney U test is employed to detect the difference.

The result showed that there is no difference significantly in individual investment behavior when choosing non-subsidies and subsidies treatment. Individuals have tendency to think rationally to invest in technology that have a highest Net Present Value or in this case the technology that is not subsidized. It revealed that perception of individual to take risk and earning in the previous game are affected by individual decision whether to take subsidy technology or not. To conclude, environmental subsidy is less effective in reducing environmental degradation.

Keywords: experiment, externalities, subsidies environment, subsidies technology