
Environmental and Natural Resource Economics: An Encyclopedia
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Rosen, Sherwin

Glenn Blomquist

When economists value a McIntosh Apple or a Toyota Prius they turn to the markets for apples and automobiles where product prices give the values of the fruit or vehicle. Behind this reliance is the idea that market prices reflect the preferences and demands of consumers as well as the resources employed and supply costs of producers. When environmental economists value cleaner air in Chicago or cleaner (fewer) hazardous waste sites in New Jersey, however, market prices of these nonmarket goods are not readily available. Sherwin Rosen made a huge contribution to the field of environmental valuation by offering the insight that markets for these environmental goods do exist, but they are implicit; they are embedded in the markets for goods that we do observe being bought and sold. Environmental economists must do some statistical detective work to get those values. Think about the value of a house. The market price depends on its structural characteristics such as bathrooms and living space and neighborhood characteristics such as safety and air quality. In his 1974 article in the *Journal of Political Economy* titled "Hedonic Prices and Implicit Markets: Product Differentiation in Perfect Competition,"

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Sherwin Rosen offered the insight that if air quality varies by location, then an implicit market for air quality exists in the explicit market for houses. The increment in house price due to cleaner air is an implicit market price that reflects the value of the cleaner air. This approach has allowed environmental economists to estimate the value of a wide variety of environmental goods and contribute to benefit-cost analysis that promotes efficient environmental policy. Environmental and urban economists have applied a related approach of his that combines compensating differences in housing prices and wage rates due to cleaner air and other amenities that vary by location to estimate the value of quality of life in different areas. These approaches are just two of many contributions he made during a distinguished career.

Sherwin Rosen was born in Chicago, Illinois, in 1938, earned a B.S. from Purdue University in 1960, and a Ph.D. in economics from the University of Chicago in 1966. He was on the faculty at the University of Rochester 1967-1977 before joining the faculty at the University of Chicago. He was the Edwin A. and Betty L. Bergman Distinguished Service Professor in Economics at Chicago at the time of his death in 2001. He was best known for his work in labor economics and industrial organization. His 1974 article about hedonic prices and implicit prices had at least as great an influence on labor economists as environmental economists and is one of the most highly cited articles in economics. It provided economists a framework for estimating values of changes in mortality risks, values of keen interest to labor and environmental economists alike. Income inequality, gender wage differences, and the economics of superstars are other areas in which he made pathbreaking contributions. He was a fellow of the American Academy of Arts and Sciences,

member of the National Academy of Sciences, and was president of the American Economic Association. The impact of his work is still great.

See also [Hedonic Methods](#);

See also [Value of Statistical Life](#)

Further Reading

Rosen, Sherwin. 1974. Hedonic Prices and Implicit Markets: Product Differentiation in Pure Competition. *The Journal of Political Economy* 82(1): 34–55.

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