



Seminarios de Macroeconomía y Finanzas

Aggregate impacts of cap-and-trade programs with heterogeneous firms

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Los Seminarios de Macroeconomía y Finanzas tienen como objetivo difundir investigación académica y aplicada de investigaciones del Banco y externos.

Abstract

We study the long-run effects on output, aggregate TFP, and welfare of alternative permit allocation schemes in a cap-and-trade program. We use a firm dynamics model with heterogeneous firms and add an emission market with a cap-and-trade regulation. We calibrate the model with establishment and emission data in the US and study three permit allocation methods: auctions, output-based-allocation, and grandfathering. A 40% reduction in emissions is associated with a welfare cost that is highest for auctioning (1.20%), followed by grandfathering (0.78%) and, finally, output-based allocation (0.70%). We also consider an abatement technology option, which implies smaller but still significant welfare costs.