

FSR Climate Annual Conference 2021 – 7th edition

Dates: 29 & 30 November on Zoom Webinar

Monday 29 November

10:05-12:05 – Session on Emissions trading

Presenter: Frans De Vries (University of Aberdeen Business School)

Title: *Investment Incentives in Tradable Emissions Markets with Price Floors,*

Abstract:

Emissions uncertainty has led regulators to include price controls in many cap-and-trade markets. We study how these controls affect firms' incentives to invest in new abatement technologies in a model with abatement cost uncertainty. Price floors increase investment incentives because they raise the expected benefits from lowering abatement costs. We also report a market experiment that features abatement cost uncertainty and the opportunity for cost-reducing investment, with and without a price floor. Trade occurs through a continuous double auction market. Consistent with the theoretical model, investment is significantly greater with the price floor in place. Emissions permit prices also respond as predicted to abatement investments and emissions shocks.

Co-authors: Tim Cason and John Stranlund

Webpage and programme [here](#)