

International Conference on Ex-Post Evaluation of Emission Trading

Tuesday, 20 June 2023

15:10 – 17:30 | Session “Social impacts and acceptability of emission trading”

Presenter: GHASSANE BENMIR (London School of Economics)

Title: Weitzman Meets Taylor: ETS Futures Drivers and Carbon Cap Rules

Abstract:

In this paper, we study the drivers of EU Futures ETS carbon pricing using a macro-finance model to estimate the shock decomposition of the CO₂ price in the data. We use both a novel data set and strategy to estimate the abatement and policy shocks. Our findings indicate that the ETS price is mainly driven by energy, climate sentiment, and abatement shocks. In comparison to the social cost of carbon (i.e. the optimal policy), we observe that the volatility of the ETS price is 10 times higher. Finally, we demonstrate how reducing price uncertainty using a carbon cap rule can help close the volatility gap with respect to the first best policy.

Webpage and programme [here](#).