Environmental Economics

Pricing pollution, and the instruments available.

Economics

Carbon tax

- Price is certain
- Quantity of emissions is not
- Revenue raised for the state
- Simpler to administer
- Adjusts slowly to new information

Cap and trade

- Quantity is certain
- Price is not, and can be volatile
- Permits allocated or auctioned
- Market finds the cheapest abatement
- Cap can be tightened over time

THE DIFFERENCE THAT MATTERS

Choose a tax if you care most about cost certainty; a cap if you care most about hitting an emissions target.

Both work by making the polluter face the cost. Regulation mandating specific technology usually costs more per tonne.