

Key issues in (and across) the 4 papers assigned on tradable permits

Lawrence H. Goulder, “Markets for pollution allowances: what are the (new) lessons”

- What was the first environment policy for US that took shape in 1974?
- Which particular pollutant was the focus of US EPA policies?
- Look for the application of cap and trade policy to environmental issues other than pollution.
- How does US EPA program bring cost-effectiveness?
- Examine the advantages and disadvantages of cap and trade policy as compared to other policies (price determination in market, conventional regulatory approaches)
- Examine the design of the policy, particularly the allocation of pollution allowances.
- Based on the comparative analysis of the policies, suggest a policy design that would do away with the problems of cap and trade.

Ricahrd Schmalensee and Robert N. Stavins, “The SO₂ allowance trading system: the ironic history of a grand policy experiment”

- What are the major sources of SO₂ emissions?
- What was the target set for SO₂ emissions, and how was this target chosen?
- What form of allocation of allowances was chosen and what were its drawbacks?
- How far has this policy been successful? Elaborate on the emissions reduction over the years.
- Try to understand why was the SO₂ targeting “the right thing for a wrong reason”?
- Look for the political interference that led to collapse of SO₂ cap and trade system.

Ricahrd G. Newell, William A. Pizer, Daniel Raimi, “Carbon markets 15 years after Kyoto: lessons learned, new challenges”

- Analyze the reasons for price volatility for CO₂ allowances in EU.
- Look for contrasting features of CDM as compared to cap and trade, and comparative
- Try to understand why doing a cost benefit analysis of policy is difficult. How can emissions reductions be better measured?
- More importantly, try to understand the concept of “emissions leakage”. How far does this approach look justified to you?
- How far does “carbon markets linkage” appear as a solution?
- Analyze the cost advantage of offsets along with the shortcomings.

Karen Fisher-Vanden and Sheila Olmstead, “Moving Pollution Trading from air to water: potential, problems, and prognosis”

- Focus on the key features of the Clean Water Act and National Pollutant Discharge Elimination System (NPDES) and the shortfalls. Look for the modification done to NPDES when used in US water quality offset program.
- Compare the three market structures: bilateral, clearing house and exchange markets, try to understand the extent of efficiency achieved in each. Which one of these would you suggest to be applied to future policies?
- Look for the kind of trading flexibilities that can be possibly introduced in the allowances trading, and subsequently the extent of efficiency achieved by each.