

Graph 8: Emissions tax and abatement subsidy schemes: a comparison

# Trdable Permits for Pollution Control

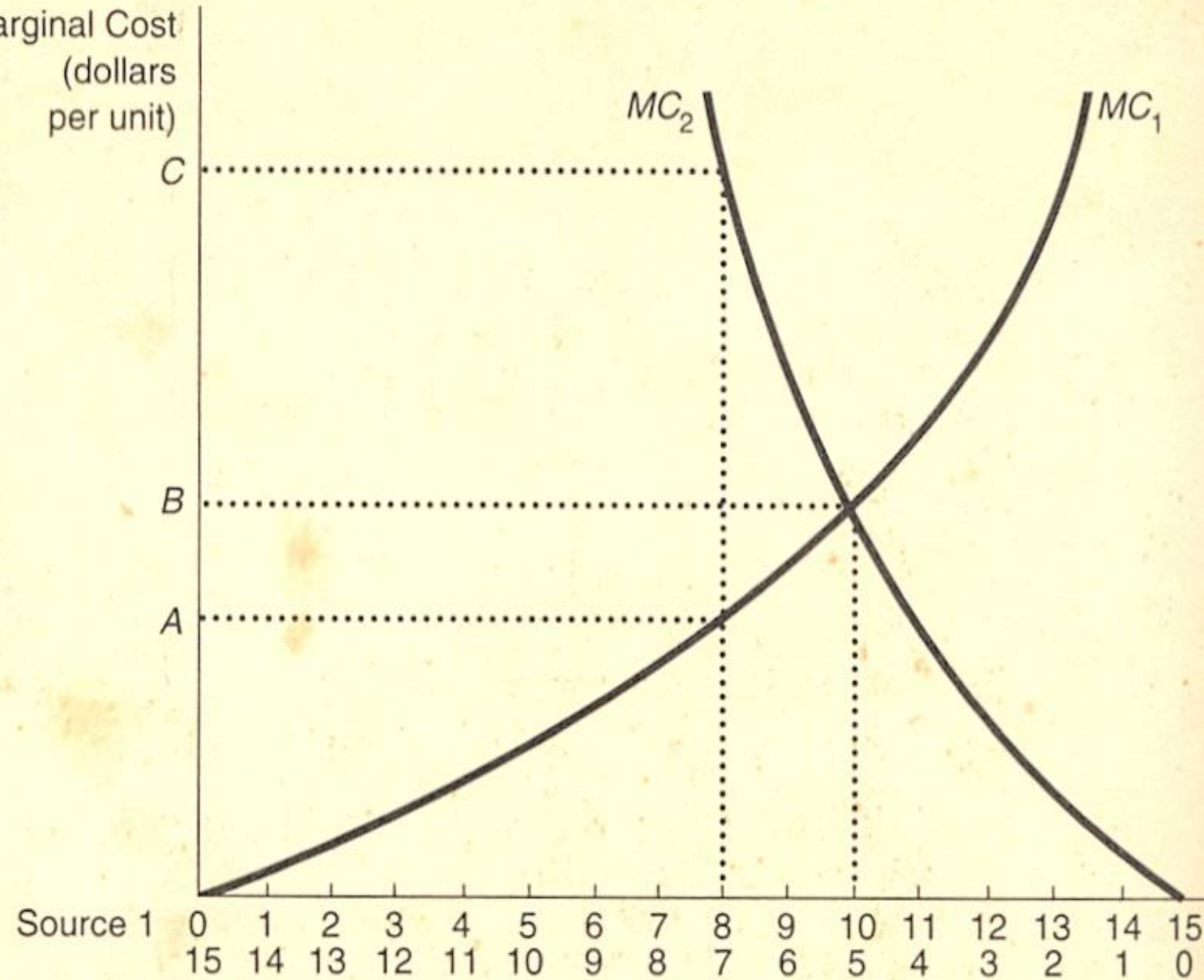
By

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# Tradable Permits

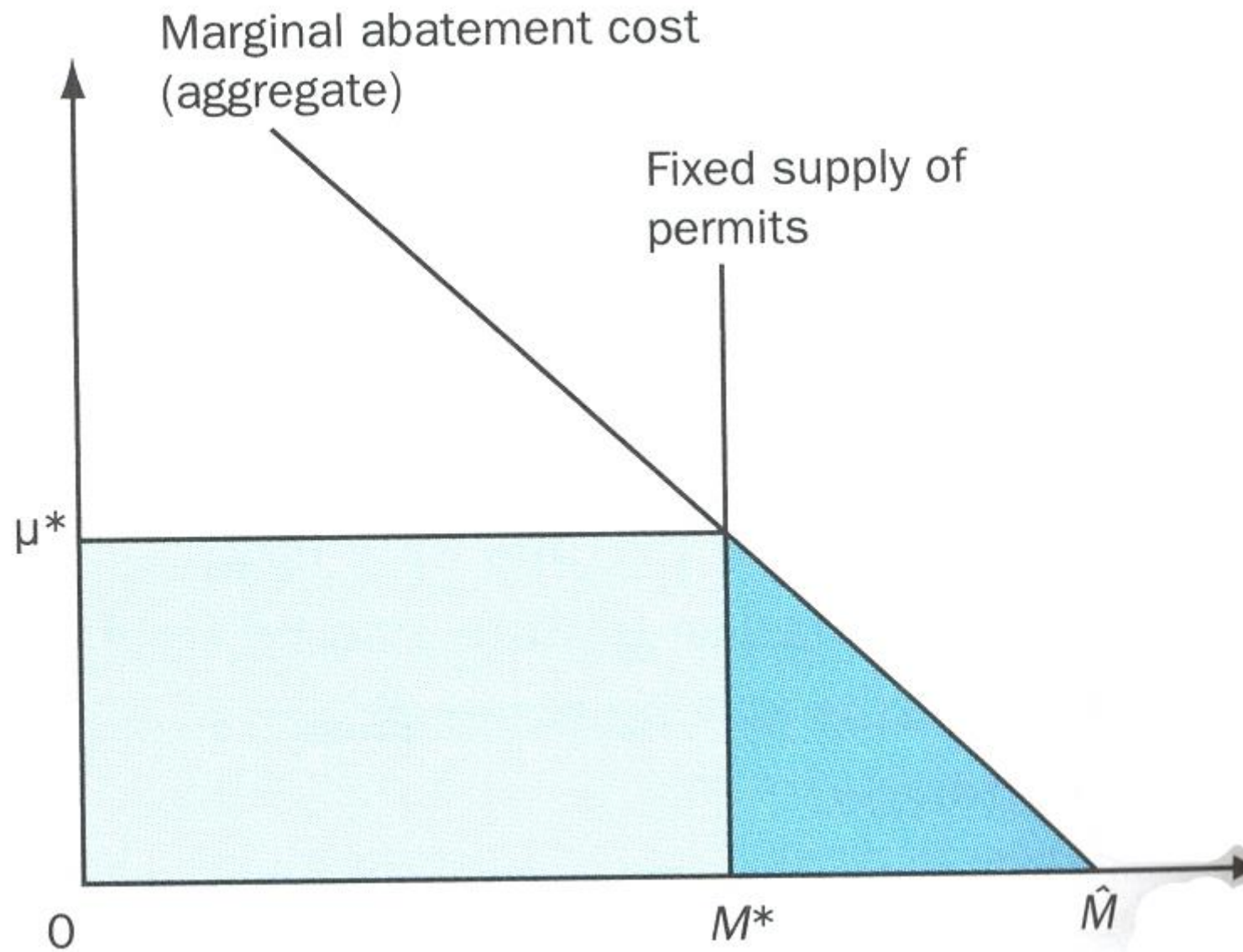
- Fixed amount of emissions
- Number of emission permits to ensure releasing the fixed amount of emissions
- A mechanism to allocate permits amongst polluters
- Regulatory system to ensure firms only emit allowed amounts by permits
- Mechanism to monitor emissions, firms emit more than allowed by their permits are punished.
- Guarantee that emissions are tradable/transferable

Marginal Cost  
(dollars  
per unit)

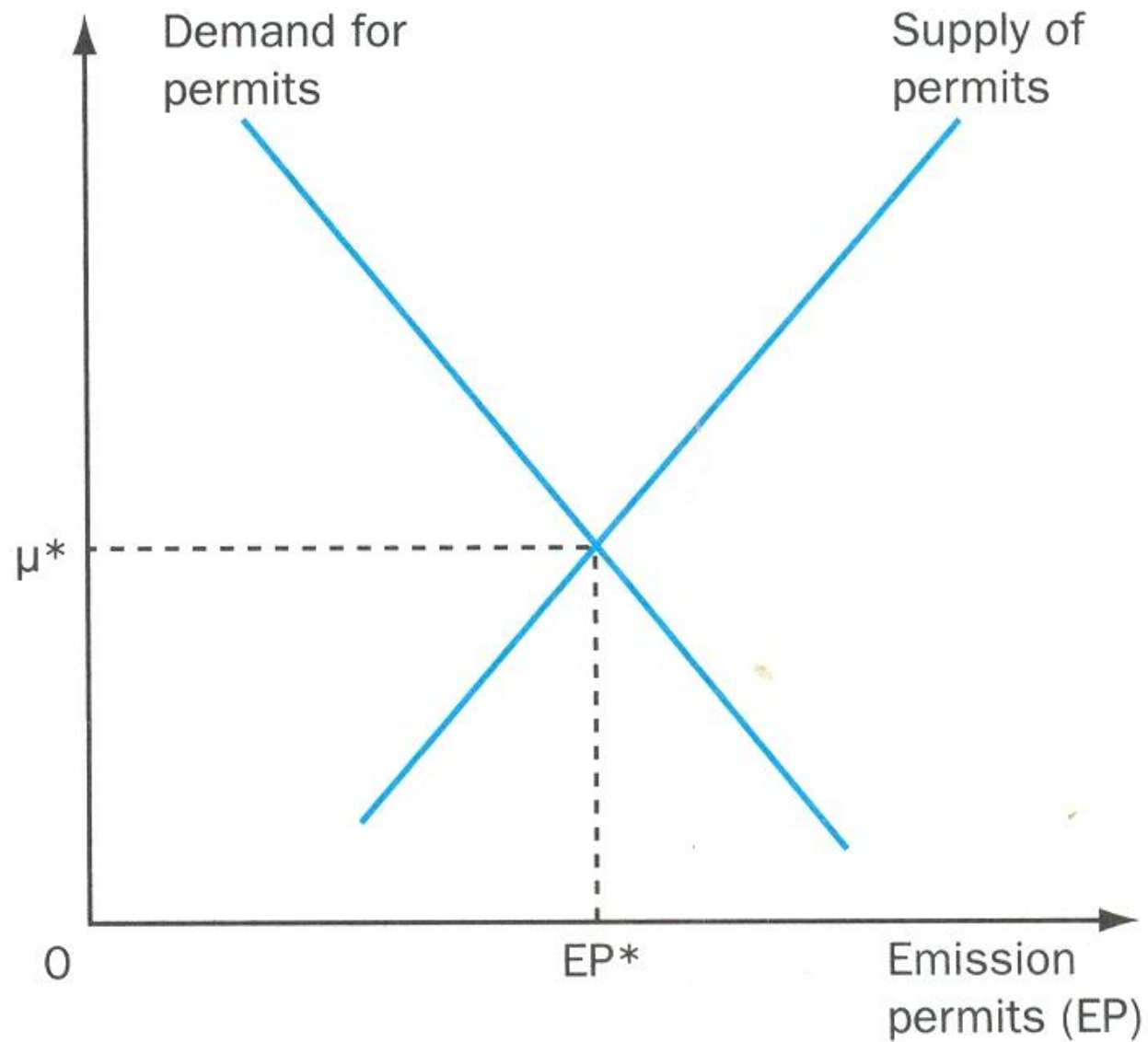


Quantity  
and  
Emission  
Reduced

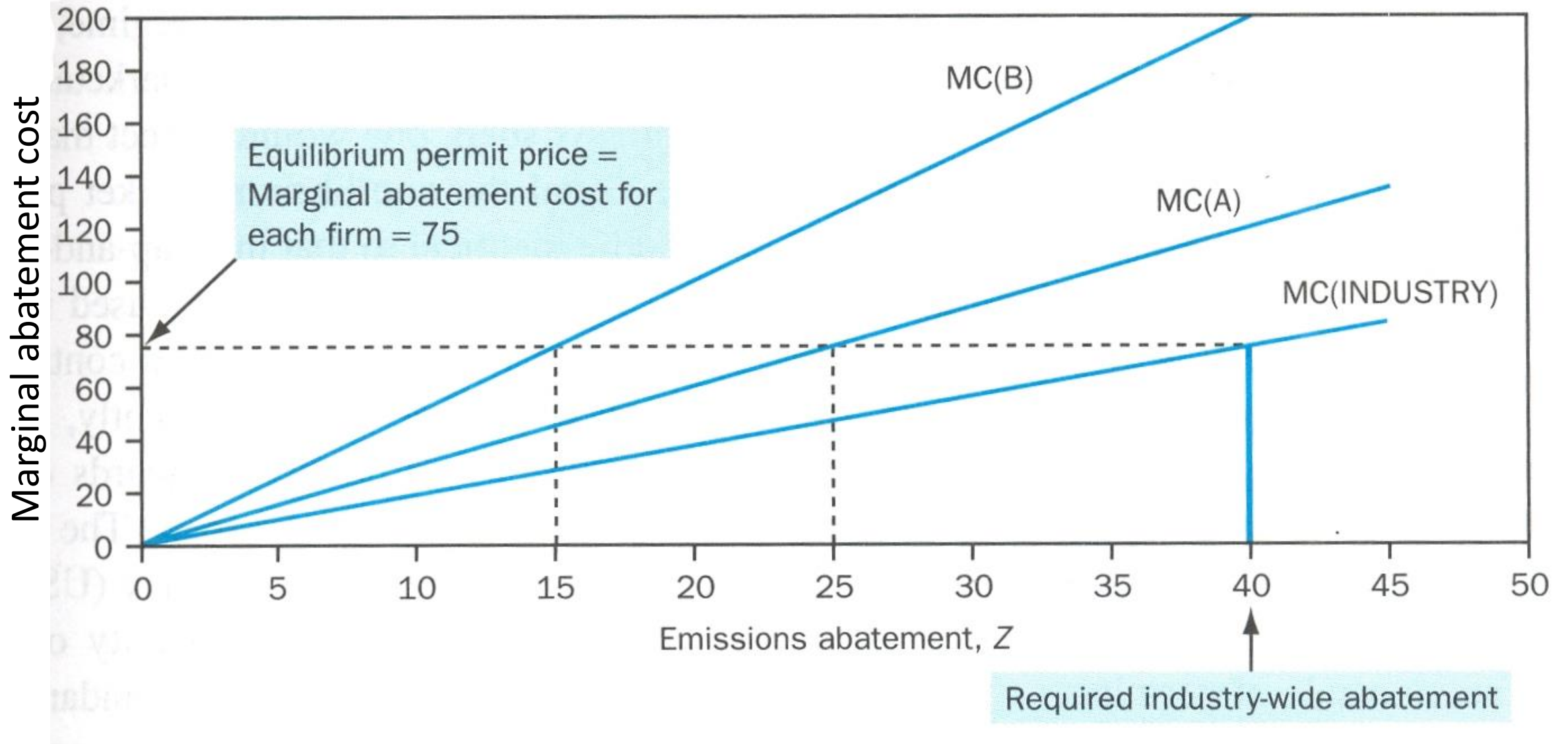
**Cost Effectiveness and the Emission Permit System**



Graph 9: The determination of the market price of emissions permits

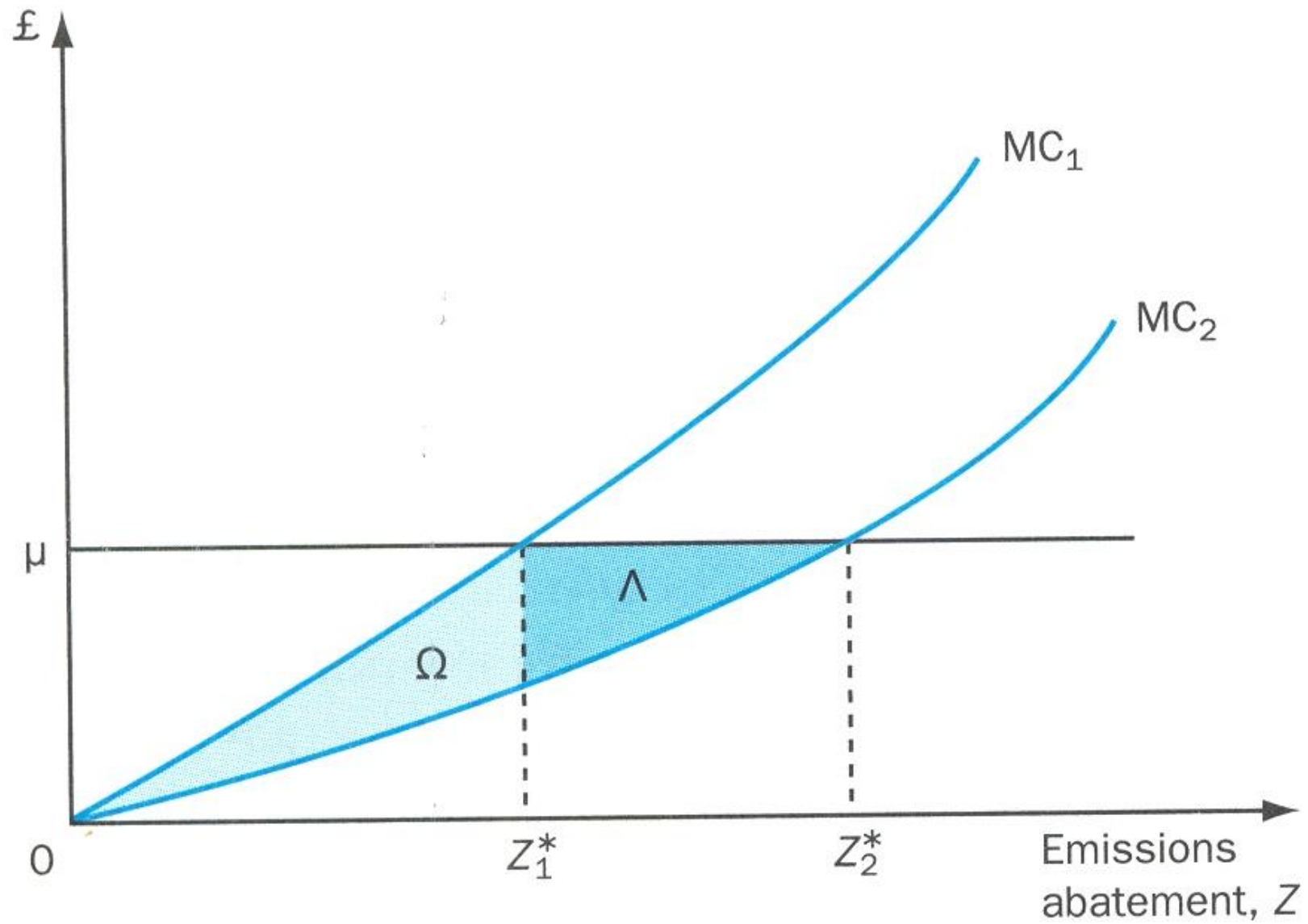


Graph 10: The determination of the market price of emissions permits:  
free initial allocation case



Graph 11: Efficient abatement with two firms and marketable permits





Graph 13: Dynamic incentives under emissions tax controls



# Criteria for Evaluating Public Policy

- Effectiveness
- Efficiency
- Equity
- Flexibility
- Information base and Administrative Capacity
- Legal Structure
- Political Feasibility
- Cultural Acceptance
- Cost of Monitoring

# Comparison of CAC and Market Instruments

- CAC may not be efficient, CAC need MAC curves of all the firms. MBIs are efficient; attain pollution control with minimum cost
- MBIs are: effective in processing information; minimize costs; and provide incentives for innovative approaches to reduce abatement costs
- Monitoring cost of CAC can be high
- MBIs promote technological innovations
- MBI works well when MAC are heterogeneous.
- Moral Hazard and other information failures may result in MBK less effective