Carbon Markets: Microstructure, Pricing and Policy

Carbon Markets: Microstructure, Pricing and Policy

by Walter Lord

4.5 out of 5

Language	: English
File size	: 3492 KB
Text-to-Speech	: Enabled
Screen Reader	: Supported
Enhanced typesetting	: Enabled
Word Wise	: Enabled
Print length	: 310 pages

Carbon markets are a key policy tool for combating climate change. They create a financial incentive for businesses and individuals to reduce their greenhouse gas emissions. By putting a price on carbon, carbon markets help to level the playing field between clean and dirty energy sources.

However, carbon markets are complex and often misunderstood. This book provides a comprehensive overview of the microstructure, pricing and policy of carbon markets. It is essential reading for anyone who wants to understand how carbon markets work and how they can be used to address climate change.

Microstructure of Carbon Markets

The microstructure of carbon markets refers to the institutional and trading arrangements that govern the buying and selling of carbon credits. These arrangements include the types of carbon credits that are traded, the exchanges on which they are traded, and the rules and regulations that govern trading.

The microstructure of carbon markets has a significant impact on the price of carbon credits. For example, markets with a large number of buyers and sellers tend to have lower prices than markets with a small number of buyers and sellers. Similarly, markets with clear and transparent trading rules tend to have lower prices than markets with opaque and complex trading rules.

Pricing of Carbon

The price of carbon is a key determinant of the effectiveness of carbon markets. A high price for carbon will provide a strong incentive for businesses and individuals to reduce their greenhouse gas emissions. Conversely, a low price for carbon will provide a weak incentive for emissions reductions.

The price of carbon is determined by a number of factors, including the supply and demand for carbon credits, the cost of abatement, and the policy goals of governments. The supply and demand for carbon credits is influenced by a variety of factors, including the level of economic activity, the availability of low-cost abatement options, and the expectations of market participants.

The cost of abatement refers to the cost of reducing greenhouse gas emissions. The cost of abatement varies depending on the type of emissions reduction project and the location of the project. The policy goals of governments also play a role in the price of carbon. Governments may set a minimum price for carbon or they may provide subsidies for emissions reductions.

Policy of Carbon Markets

The policy of carbon markets is a complex and evolving field. Governments are constantly experimenting with different policy designs to find the most effective way to reduce greenhouse gas emissions. Some of the most common policy designs include cap-and-trade systems, carbon taxes, and baseline-and-credit systems.

Cap-and-trade systems set a limit on the total amount of greenhouse gas emissions that can be emitted by covered entities. Covered entities are then issued permits that allow them to emit a certain amount of greenhouse gases. If a covered entity emits more greenhouse gases than its permits allow, it must Free Download additional permits from other covered entities.

Carbon taxes impose a tax on each ton of greenhouse gases emitted. The tax rate is usually set by the government and it can be adjusted over time to meet policy goals. Carbon taxes provide a strong incentive for businesses and individuals to reduce their greenhouse gas emissions because the tax liability increases with the amount of emissions.

Baseline-and-credit systems establish a baseline for greenhouse gas emissions and then issue credits to covered entities that reduce their emissions below the baseline. Covered entities can then sell these credits to other covered entities that need to offset their emissions.

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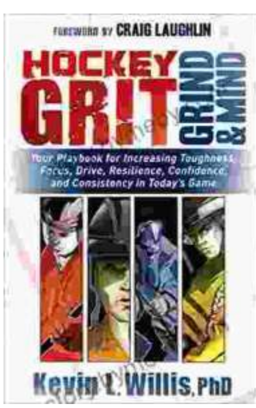

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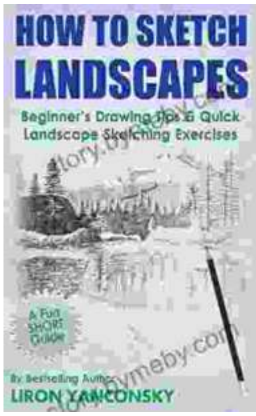

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