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Market Effects of Voluntary Climate Action by Firms: Evidence from the Chicago Climate Exchange

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Author(s) Gans, Will; Hintermann, Beat
Author(s) at UniBasel Hintermann, Beat ;
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Why do for-prot rms take voluntary steps to improve the environment? Do green actions indicate that managers are wasting resources in costly programs to produce benefit that cannot be captured by the firm? Or is voluntary environmental spending profitable for a business sense?ă Empirical evidence is decidedly mixed.ă In this study, we use 19 years of monthly stock price returns to examine the protability of participation in the world's largest voluntary greenhouse gas mitigation program: the Chicago Climate Exchange (CCX).ă After controlling for systemic market risk as well as industry-specic shocks, we nd statistically signicantly positive excess returns for firms that announce their decision to join CCX.ă In addition, the progress of proposed greenhouse gas legislation (the Waxman-Markey bill) had a positive and large impact on excess returns for CCX member rms, suggesting that a major incentive for rms to join CCX may be to prepare for future regulation.ă Marginal abatement costs (proxied by the carbon price), on the other hand, were unrelated to excess returns.ă Our results imply that voluntary approaches should play a role in combating climate change, but that relying on them alone is not enough.
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