



Universität
Basel

Research Project

Optimal Size of a Permit Market

Project funded by own resources

Project title Optimal Size of a Permit Market

Principal Investigator(s) [Krysiak, Frank Christian](#) ;

Organisation / Research unit

Departement Wirtschaftswissenschaften / Umweltökonomie (Krysiak)

Project start 01.01.2008

Probable end 01.08.2010

Status Completed

Regulating the emissions of non-uniformly mixed pollutants with a permit market carries the risk of hot spot formation, which can be reduced by dividing the regulation area into trading zones. The trading zone approach has been extensively discussed for the full-information case. We consider incomplete information concerning the emitters' abatement costs, their locations, and pollution dispersion. We derive the optimal number of trading zones and the optimal number of permits per zone and analyze under which conditions a system of independent trading zones is superior to other policy measures. Our results show that appropriately sized permit markets are well-suited to regulating non-uniformly mixed pollutants under informational constraints if firms are not too heterogeneous. Only for substantial heterogeneity and a highly non-linear damage function can it be optimal to use command-and-control strategies.

Keywords Permit Trading, Uncertainty, Hot Spots, Trading Zones

Financed by

University funds

Add publication

Published results

404894, Krysiak, Frank C.; Schweitzer, Patrick, The optimal size of a permit market, 0095-0696, Journal of environmental economics and management, Publication: JournalArticle (Originalarbeit in einer wissenschaftlichen Zeitschrift)

Add documents

Specify cooperation partners