

Research Project

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

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

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Why do for-profit firms take voluntary steps to improve the environment? Do green preferences get the better of managers and make them waste shareholder money in costly programs the benefit of which cannot be captured by the firm? Or is voluntary environmental spending profitable for the firm? The empirical evidence is decidedly mixed. We use 19 years of monthly stock price returns to examine the profitability of participation in the world's largest voluntary greenhouse gas mitigation program: the Chicago Climate Exchange (CCX). After controlling for systemic market risk as well as industry-specific shocks, we find statistically significant positive excess returns for firms that announce their decision to join CCX. 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 firms, suggesting that a major incentive for firms to join CCX may be to prepare for future regulation. Marginal abatement costs (proxied by the carbon price), on the other hand, were unrelated to excess returns. Our results imply that voluntary approaches should play a role in combating climate change, but that relying on them alone may not be enough.

Keywords Voluntary markets, climate change, CO2, permit markets

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978093	Hintermann, Beat	Gans, William, Ph.D.	University of Maryland	01.02.2010	01.02.2013