



Fondazione
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Beyond Cap and Trade. Emission Pricing and Technology Strategies

by David Montgomery

Discussion

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- I like this paper because it makes me feel younger.....

- Developments of carbon free technologies requires incentives to R&D
- These incentives are missing because of
 - Imperfect appropriability
 - Unstable international agreements
 - Time inconsistency

- There are others, e.g. uncertainty ...
- Issue is not only whether there is R&D, but also how and when ...
- Tournament vs. non tournament models

- Focus on time inconsistency
 - Same as Lucas and Kydland and Prescott
 - more generally true for stocks ...
 - Even ,more generally true for Stackelberg games.

- Solutions to the time inconsistency problem:
 - Commitment
 - Reputation effects (Kreps and Wilson)
 - Threats (Closed Loop Nash equilibrium)

=> first best can be achieved

- There is also second best (feedback Nash equilibrium)
- How far is it from first best?
- More generally, results are less extreme (partial appropriability, partial coalitions, under-investment in R&D, ...)

- Does the paper really address a relevant issue?
 - Stiglitz's information paradox ...
 - and shirking workers
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- The central question becomes one of how R&D can be motivated effectively and in a cost-effective fashion.....